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GENERAL

Post-Vancouver U.S.-Russian Summit

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[CONTEMPORARY INTERNATIONAL RELATIONS]
in Chinese No 42, 20 Apr 93 pp 1-5

[Article by Gu Guanfu (7357 7070 4395) and Tian Runfeng (3944 3387 6912): "The U.S.-Russian Summit and the Prospects of U.S.-Russian Relations"]

[Text]

I.

On 3 and 4 April 1993, President Clinton of the United States and President Yeltsin of Russia held the first meeting of the heads of state of these two countries after the advent of the new Clinton administration, and they issued on that occasion the "Vancouver Declaration." Both sides declared that the present meeting has strengthened the "strong and effective partnership relation" between the two countries. The present summit was somewhat extraordinary in that it was held when the Russian domestic situation was in acute turbulence, when Yeltsin's position was seriously challenged, and when, in the United States, President Clinton had only just recently taken office, intending to "rehabilitate" U.S.-Russian relations. Compared with past summits, the present summit exhibited obvious differences in background and in certain particular circumstances:

1) President Yeltsin found himself domestically in a serious predicament and needed the present meeting particularly to shore up his prestige and position. Right at the beginning of this year, Russia's economy and its political situation were in an increasingly serious crisis. Early in January, Russia's State Statistics Commission published a report on last year's socioeconomic development, in which it revealed the serious condition of the Russian economy as it had suffered a disastrous decline during this one past year: gross domestic product had been 15 trillion rubles, a decline of 19 percent compared with 1991, productive national income had declined 20 percent, industrial production had declined 18.4 percent, agricultural production had declined 8 percent, food production had declined 23 percent, light industrial production had declined 16 to 23 percent, currency inflation during the year had reached 2,200 percent, and indebtedness to Western countries had risen to \$80 billion. The situation at the beginning of this year had been even worse than last year, with a further slump in the entire national economy. There was a 21.8 percent decline in January, and a 19 percent decline in February, compared with the corresponding periods of the preceding year, and for the entire first quarter the decline in national income was estimated at about 20 percent, in industrial output 19.5 percent, in which the decline in the light industry alone would be over 37 percent, creating a situation of unbearable hardship for the population. Under these circumstances, the growing seriousness of the economic crisis heightened the increasingly grave political crisis. During the period from the seventh session of the

Congress of People's Deputies at the end of last year to the eighth session of the same body in March of this year and its ninth emergency session, the internal conflicts within the leadership have gradually become more evident and more heated. Political forces, represented by such men as Ruslan Khasbulatov, speaker of the Russian parliament, blame the government for applying a "shock treatment" throughout last year, which brought on all the extreme difficulties now experienced in the Russian economy. They demanded that President Yeltsin acknowledge his mistakes, abandon his entire course of action, and urged him to reorganize his government and to replace his advisers. At the Eighth Congress of People's Deputies held on 10 March, the head of parliament revoked the special powers that had been bestowed on the president and rescinded the resolution passed at the Seventh Congress of People's Deputies, which had called for a nationwide plebiscite in April. To cope with this powerful onslaught by the Congress of People's Deputies and the opposition party, Yeltsin adopted an extraordinary measure: he proclaimed on 20 March a presidential "special rule." Valeriy Zorkin, chief justice of the Constitutional Court, also Khasbulatov, speaker of the Russian parliament, and others considered Yeltsin's action a violation of the constitution and decided to call an emergency session of the Congress of People's Deputies to oppose Yeltsin. Quite a few deputies wanted to impeach Yeltsin and to remove him as president. All this led to the most serious political crisis in Russia since the "19 August" incident. Through a round of wrangling and compromising at the Ninth Session of the Congress of People's Deputies, 26-29 March, Yeltsin maintained his position of president and avoided being impeached by the congress, but in actual fact he had lost conspicuously in prestige and in his power base. Although the Ninth Congress of People's Deputies agreed to hold a referendum on 25 April, the subject matter of the referendum was not what Yeltsin had planned it to be. The situation at the three congresses of the people's deputies certainly developed in a direction that was unfavorable to Yeltsin. Against this background, it was Yeltsin's fervent hope to consolidate his position, and to this end he regarded the present U.S.-Russian summit as an excellent helpful and supportive opportunity.

2) President Clinton, having come to office only recently, was very concerned that the unpredictable and changeable political situation in Russia might upset the strategic global disposition of the United States, and was therefore most eager to effect a "blood transfusion" into the Yeltsin regime and the Russian reform. Shortly after Russia had declared independent statehood for itself, Yeltsin attended the summit at the UN Security Council, which presented him with an opportunity to visit the United States. On that occasion, Russia and the United States issued a "Camp Davis Declaration," establishing a "partnership relationship" between the two countries. In June of last year, Yeltsin paid his first official visit to the United States, and the two sides signed the "Washington Charter," in addition to concluding an additional

30-odd agreements on cooperation by the two countries in many areas. At the beginning of this year [1992], Bush had visited Moscow and both sides had reached an agreement on the destruction of two-thirds of their strategic nuclear weapons. Russia agreed to the complete destruction of all its "nuclear aces"—heavy-type, multi-head land-based continental guided missiles. The United States was highly pleased with Yeltsin's "spirit of cooperation," and both sides emphasized that a "new era of friendship and partnership relations" has begun in their mutual relations. After assumption of office, the Clinton administration attached even greater importance to Russia than the Bush administration had, and decided on a policy of further development of U.S.-Russian relations. Especially in the most recent past, when the overall situation in Russia had become increasingly unstable, Clinton became very concerned that if Yeltsin would fail, it would lead to a reversal in U.S.-Russian relations and even in the entire European situation, and would nullify the "achievements" gained from ending the cold war. Clinton therefore publicly indicated that he would not be a mere "spectator." On the one hand he vigorously stirred up "Help Russia" sentiment domestically, and at the same time strongly urged his Western allies to "boldly increase aid" for Yeltsin. Without reservation he stated: "Sustaining Russia as a democratic state, having it continuously progress toward market reform and a reduction of its nuclear threat is absolutely in our interests."¹ He warned the American people and his Western allies that it is necessary to have Russia keep up its trend toward reform, as the only way to "render the world more secure," and to save defense expenditure for the United States. Otherwise, "if the reform in Russia fails, the U.S. domestic economic plan will be greatly jeopardized."² Clinton regarded support and help for Yeltsin as an "investment" by and for the United States itself, and he even went so far as to indicate that he would be ready for "decisive action," much like that taken by the former administration in the Persian Gulf.

3) The way the present U.S.-Russian summit was held had been in many ways different from past summits; Clinton first consulted in detail with his main allies, before facing Yeltsin with a "Plan for Assistance to Russia." For his meetings with Yeltsin, Clinton often consulted with leaders of West Europe and Japan, promoting the formulation of an overall Western strategy "to support Russian democracy," "to establish market economy," and to have a "detailed plan of assistance."³ There was the hurried visit to Washington by French President Mitterand on 9 March, one day before the Eighth Russian Congress of Deputies, when Clinton and Mitterand held important discussions on developments in Russia, particularly on the question of Yeltsin's position and of the general "stability" in Russia. After the Eighth Congress of People's Deputies ended on 13 March, a congress at which Yeltsin met with a serious rebuff, Mitterand, on 16 March, paid a "lightening visit" to Moscow to get a thorough understanding of the "confused situation" in Russia, and he then transmitted

his observations to Clinton. On 25 March, one day before Russia held its emergency Ninth Congress of People's Deputies, Chancellor Kohl of Germany rushed on a day-and-night trip to Washington to discuss with Clinton the new crisis in Russia. According to the U.S. press, Clinton at that time solicited opinions from Kohl and other Western leaders.⁴ Clinton also urged the International Monetary Fund to relax conditions for assistance to Russia and to increase aid to Russia. He urged the Group of Seven Western Countries [G-7] to "take bolder action" in support of Yeltsin's "economic and democratic reforms." He emphatically declared: "We must do our utmost and spare no effort to sustain the move toward democracy and reform in Russia."⁵ With the urging and the support on the part of the United States, Japan too, being this year's host to the G-7 meeting, speeded up relevant action. In the middle week of March, financial officials of the G-7 met in Hong Kong to discuss aid to Russia, and the meeting invited Russian Deputy Prime Minister Boris Feodorov to report to the meeting on the situation and to submit specific figures for the needed assistance. Clinton's various activities before meeting with Yeltsin have attracted the attention of the press, and a reporter of the United Press commented: "The present summit gave Clinton an opportunity to establish his image of a genial world leader and as leader of the Western coalition."⁶

II.

The present U.S.-Russian summit had lasted only two days but many problems had been discussed. At a press conference before his leaving Moscow, Yeltsin had said: "I shall discuss 25 problems concerning the relations of our two countries with the new president of the United States."⁷ According to the "Vancouver Declaration" published after the meeting, the two presidents "approved a strategy of overall cooperation which will promote democracy, security, and peace," and "decided on a comprehensive plan, which included a plan and certain measures for bilateral trade."

1) The central theme of the meeting was the issue of aid to Russia, comprising an assistance plan by the United States alone, as well as the intended assistance to Russia by the G-7. The United States officially declared that it would increase its assistance to Russia from somewhat over \$400 million to \$1.6 billion. This figure would be made up of a credit of \$700 million for grain and other foodstuffs, an outright grant of \$690 million, and of \$230 million in other forms of assistance. The fundamental purpose of U.S. aid to Russia is to ensure that Russia would progress further on the road toward democracy and privatization reforms. The specific aid items have been carefully worked out. For instance, special funds are provided to help Russia develop small enterprises on a large scale and to privatize state-owned enterprises; are provided as credit for housing, helping Russia accommodate demobilized soldiers, so that Russia may speed up withdrawal of troops from the Baltic coast; are provided in the form of technological assistance to have Russia

resume petroleum production, which would be beneficial in increasing petroleum supplies in the international market and stabilize oil prices. As to the methods, the United States emphasized that in addition to "government to government" there should be "people to people" activity, sending a "democracy corps" to Russia, which would be beneficial to increase American influence throughout the different strata of the Russian population. Apart from expressing his gratitude for U.S. assistance, Yeltsin emphasized during the meeting even more strongly that the United States should take action in the area of trade and investments, for instance, end the restriction, dating from the Cold war time, on the sale of high technologies to Russia, and once and for all abolish the "Jackson-Vanik amendment" (linking trade with the emigration issue, restricting credits, etc).

Clinton and Yeltsin furthermore discussed preparations for the meeting of foreign ministers and financial officials of the G-7, to be held in Tokyo on 14-15 April. Main agenda for that meeting is study of G-7's plan for assistance to Russia, and it is estimated that this year's assistance to Russia by the West will be increased to \$30 billion. This will include rescheduling of Russia's debt of \$15 billion falling due in 1992-1993, as agreed upon by the 19 countries of the Paris Club.⁸ Furthermore, after the United States increased its Russian aid, Britain indicated that it will increase its aid of originally 60 million pound sterling to 120 million pound sterling. Canada will increase its grant to Russia to \$160 million.

2) Continued cooperation in arms control. The United States was much concerned that the increasingly complex situation inside Russia will prevent approval of the Strategic Arms Reduction Treaty [START]. The "Vancouver Declaration," as presently published, specifically mentions that both sides are "in full agreement" that "the United States and Russia will make every effort to carry out the first stage of START, and will as soon as possible ratify the second stage of START." Both sides "are determined" to have the nuclear nonproliferation treaty become a "universal treaty," and will "urge the Democratic Republic of Korea to observe to the letter the protective regulations of the International Atomic Energy Agency and to revoke its withdrawal from the nuclear nonproliferation treaty." In addition, both sides also discussed such issues as the prohibition of nuclear tests, prohibition of chemical weapons, and nonproliferation of guided missiles and guided missile technology.

3) Coordinated action in the solution of regional conflicts. The two heads of state discussed the problem of solving international crises, including the conflicts in former Yugoslavia, in the Middle East, and in Angola, and also the conflicts within the former Soviet Union. Both sides "are determined to expand mutual concerted action and cooperation and to hold consultations in matters of defense and security."

4) A tacit understanding was reached with regard to the sale of arms. Before the present meeting, Russia had asked the United States not to interfere in Russia's trade

in the international arms market, and to allow Russia to maintain its traditional arms sales markets in the Middle East, South Asia, and other areas. During the meeting, Yeltsin went even further in that he asked that the West should help Russia to sell arms as one way to earn hard currency. It is said that although the United States expressed sympathy for Russia's position, the United States emphatically urged Russia to limit its arms sales to such countries as Iran and Syria.

III.

At the end of the U.S.-Russian summit, the two leaders felt well satisfied with the meeting and declared that "success has been achieved in establishing a U.S.-Russian relationship of a new character." As the Clinton administration is continuing the process of persuading the American people and spurring on its Western allies to carry out assistance to Russia, U.S.-Russian cooperation may well experience a new development. However, there are still elements of instability and difficult problems in the relationship between the two countries.

1) The framework for a U.S.-Russian "partnership relationship" has basically been established, and the Yeltsin regime will "cooperate" with the United States much closer, but whether this can be smoothly followed through will depend on the development of the political situation in Russia. Following the summit meeting, the Yeltsin government will speed up development of the U.S.-Russian partnership relationship and will promote a complete change of course in Russia. However, the present acute struggle within the Russian leadership does not merely concern the reform policy but also touches on Russian policy toward the West. In Russia, the Vancouver summit is assessed in different ways. Ruslan Khasbulatov, speaker of the Russian parliament, criticizes Western politicians for being too eager to support one particular Russian person who carried out his own reform in violation of the constitution. Vice President Aleksandr Rutskoi emphasized that what Russia should rely on is its own resources and not foreign aid. Many deputies believe that the Russian Government's closely following the Western model will result in failure of the reform, deterioration of the economy, and starvation for the people. In foreign relations, they accuse the government of becoming excessively intimate with and submissive to the West, damaging Russia's image and its interests, and reducing Russia to the status of a "secondary country" and becoming a "minor partner" of the United States. On these questions, there are difference even between the various departments of the government. The ministry of foreign affairs pursues a policy of cooperation with the United States, while the other departments, related to the military, are proponents of a "more independent stance."⁹ At the Russian emergency Ninth Congress of Deputies, several deputies declared that greater "vigilance" is called for in view of the particular attention that the West is giving in recent times to the situation in Russia and its support of Yeltsin. Some deputies even called for the resignation of the foreign minister. All these facts indicate that the

policy of the Yeltsin Government of continuing close cooperation with the United States will meet with strong opposition and restraints, and may even be a somewhat risky one.

2) The "blood transfusion" by the United States and the other Western countries for the present Russian regime has certain limits and will not be able to completely eliminate all of Russia's difficulties. Yeltsin's declaration on 20 March of presidential "special rule" has evoked great concern in U.S. political circles, where suggestions differed among three factions. One faction wants support for Yeltsin, one faction wants to abstain from involvement, and a third faction wants something in between the two others; it wants support for Yeltsin but also "leaving a backdoor open" so that other reformers are not excluded from consideration. Clinton believes that there is no one presently in Russia who can replace Yeltsin, and that Yeltsin should at present be fully supported, but the focal point must be to support Russia's continued advance on the road of reform, to have it "harmoniously joining the large family of democratic countries and the world economy." Many analysts believe that Clinton's course of action is very risky, that he is faced with many thorny problems, one of them being the violent onslaught by the Russian parliament against Yeltsin. Should Yeltsin in the end fail, how would the United States react? Would the United States tolerate and support the new successors? What if the huge aid poured into Russia by the United States remains ineffectual? Some commentators have pointed out: "Yeltsin is gambling, and so is Clinton with his Russian policy."¹⁰

In the matter of Western aid to Russia, there are also very obvious differences of opinion and limitations among the allies. Germany emphasizes that it has already provided half of all the Western aid to the former Soviet Union and the present Russia and that it is now unable to increase its assistance. Japan is always referring to the nonreturn of the four northern islands as reason for not being generous to Russia. Under pressure from the United States and Europe, Japan may assume a more active attitude and comply with some aid, but not to a very large amount. The newly appointed Japanese Minister of Foreign Affairs Kabun Muto indicated at the press conference when he assumed office that in diplomatic relations with Russia, Japan will not change its principle of "indivisibility of politics and economics," that Japan cannot overlook the issue of its northern territory, and that Japan will observe the principle of "parity" in matters of aid to Russia. Many analysts believe that Western powerful support for Yeltsin and aid to Russia will have a certain impact on the overall situation in Russia, but that in the final analysis the political situation in Russia will have to be resolved by forces within Russia itself. With the trend being toward a multipolar world, there will be, on the one hand, stronger cooperative relations between the United States and Russia, but on the other, frictions. During Russia's period of difficulties and turbulence, there will be

increased U.S.-Russian cooperation, but this will not preclude the possibility that frictions will increase because of the different interests of the two countries, should there be a change in the political situation or stability in Russia. However, what can be stated with certainty is that the U.S.-Russian relationship will not revert to an adversarial state, as during the time of polarization.

Footnotes:

1. Clinton's talk with Russian Foreign Minister Kozylev; UNITED PRESS wire, Washington, 24 March 1993.
2. UNITED PRESS wire, Vancouver, 3 April 1993.
3. XINHUA NEWS AGENCY wire, Washington, 25 March 1993.
4. UNITED PRESS wire, Washington, 26 March 1993.
5. NEW YORK TIMES, 14 March 1993.
6. Article by UNITED PRESS reporter Te-lun-si Heng-te [phonetic], UNITED PRESS wire, Vancouver, 3 April 1993.
7. RUSSIAN NEWS AGENCY—TASS wire in Russian, 2 April 1993.
8. XINHUA NEWS AGENCY wire, Washington, 25 March 1993.
9. British DAILY TELEGRAPH article, 31 March 1993.
10. THE WASHINGTON POST article, Xinhua News Agency wire, Washington, 25 March 1993.

Changes, Difficulties Facing United Nations

93CM0326A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 8, 16 Apr 93 pp 2-4

[Article by Yang Mingjie (2799 2484 2638): "United Nations Amid Changes"]

[Text] The more the pressure the heavier the burden, and the more the expectations the bigger the expectations. Old restraints are seen everywhere, and new imaginings are frequent.

With the end of the Cold War, the major changes in the world structure have pushed the United Nations to the center of the international stage. In the series of major world events that have occurred in recent years, the United Nations has frequently distinguished itself and been in the limelight—the Gulf War, the conflict in the former Yugoslavia, the famine in Somalia, and the problem of Cambodia

The United Nations is a global international organizations established after World War II on the basis of the structure set at Yalta. In the Cold war period, the United Nations was weak and incompetent; after the collapse of the old structure, it could reappear with a new

lease of life and became active on the international stage. People can't refrain from saying: Can the United Nations, which was born in the old structure, suit the new world structure? Does it need to make appropriate adjustments under the new circumstances?

It Is Difficult To Pour New Wine Into Old Bottles

A senior reporter of Japan's KYODO once remarked: "The United Nations is a mirror reflecting actual international relations." The United Nations, which was founded in 1945, is an international organization built in accord with the international situation at that time. In the initial period after the founding of the United Nations, its main mission was to make arrangements for postwar peace and security, to heal the wounds of war, and to support and promote the process of decolonization. However, following the beginning of the Cold War, the confrontation between the United States and the Soviet Union caused the United Nations to gradually sink into a state of paralysis; not only was its original mission made difficult to achieve, but it also became a stage for U.S.-Soviet contention for world hegemony. After the end of the Cold War, the United Nations extricated itself from the perplexing situation of U.S.-Soviet confrontation and returned to the center of the international political stage. In the process of solving major international or regional problems, it has played a tremendous role, and has made a valuable contribution to the peace and security of the post-Cold War international community.

However, the United Nations, which has gone through 48 years of the storms of international struggle, in its organizational principles and operating mechanisms still basically continues as before the post-World War II framework, and although some reforms were made in these 48 years they were, for the most part, just a case of fine tuning. In this sense the United Nations is still an "old wine bottle"; now, to fill it all at once with the "new wine" of the post-Cold War international community, smacks a little of undertaking to do a difficult job as best one can, and it reveals a series of problems.

—The arrangement for the permanent members of the UN Security Council was made on the basis of the five powers—the United States, the Soviet Union, Britain, France, and China—that emerged after World War II. Now, of these five powers, the Soviet Union has disintegrated and its seat has been inherited by Russia; although the United States is still the only superpower its position of strength is now in relative decline; Britain and France are always fluctuating domestically between economic crisis and social difficulty, and their role on the international stage is constantly diminishing; the national strength of the countries defeated in World War II—Germany and Japan—is rising, they are vigorously striding forward toward becoming great political powers, and their desire to take part in UN activities is becoming stronger and stronger. A Japanese Government official has stated, "Japan's share of responsibility for funding the United Nations is second only to the United States", but it has

almost no right to participate in policy-decision making on important issues," and thus he demands that Japan become a permanent member of the Security Council and play a greater role in the UN activities to maintain peace. When making a speech at the 14th UN General Assembly, German Foreign Minister Kinkel pointed out: "When specific consideration was given to changing the composition of the Security Council, we expressed the desire to obtain a permanent member seat."

—UN peacekeeping operations have encountered some new problems, and the United Nations' original principles and mechanisms have taken a beating. Since 1988 the United Nations has conducted 14 new peacekeeping operations in various parts of the world, more than the total in the previous 40 years of its history. UN peacekeeping operations have played a definite role in the process of resolving problems or conflicts in many regions. However, faced with new problems, the UN peacekeeping operations have also taken a very big beating. The principles and operational guidelines stipulated in the charter for peacekeeping operations are encountering the challenge of reality and even cannot but be broken. For example, based on sections 46 and 47 of Chapter Seven in the UN Charter, the military force that the UN Security Council is authorized to use should be under the control of the Security Council and its military staff. However, in 1990 after Iraq invaded Kuwait, Resolution 678 passed by the Security Council authorized a multinational force led by the U.S. "to use all necessary means" (including military force), but did not have clear rules in this respect, and also lacked clear rules and regulations for reporting to the Security Council and taking responsibility for this action. The result was that the multinational force formed by the United States, Britain, France, and other countries launched the Gulf War completely under the U.S. command. Even the then UN Secretary General de Cuellar admitted that this resolution was not handled completely in accord with the UN Charter. Also, at present there is a tendency in the United Nations for the peacekeeping operations to overstep the bounds of the principles set out in the charter, i.e., "It must not be thought that the UN intervention authorized by the charter is intervention that in essence is intervention in affairs under the jurisdiction of any one country." In recent years some of the UN peacekeeping operations have touched on things that originally were within the scope of the sovereignty of one country, e.g., human rights and elections.

—In the more than 40 years since the United Nations was founded, its organizations have constantly expanded and the number of its personnel has constantly increased, to the point that the organizations are overlapping, the personnel relations are complex, and its work efficiency is low; the United Nations has become a massive bureaucracy comprising more than

15,000 persons. In the United Nations' economic and social development system alone, there are more than 190 organizations, and they consume about two-thirds of the United Nations' total outlay. Because in the UN Charter the missions stipulated for the General Assembly and the Economic and Social Council are basically the same, there has appeared the problem of duplicative agendas in the General Assembly's Second Committee (economic and finance) and Third Committee (social) on the one hand and the Economic and Social Council on the other hand. After the end of the Cold War, the gap between South and North became wider, and the United Nations' economic and social organizations responsible for development wrangled within the enclosing wall of bureaucracy and became overstaffed. In some developed countries that have found excuses to procrastinate in giving monetary support to the UN Development Fund, there has appeared a so-called "chronic contribution fatigue."

—The United Nations' obligations have become broader and broader, and its financial situation is increasingly becoming worse. Up to mid-July 1992, the UN member countries were in arrears to the United Nations by \$1.75 billion. Secretary General Boutros-Ghali once loudly complained that if its financial difficulties were not resolved it might close its doors and stop doing business. The United Nations' original mechanisms for apportioning costs among its members are already on the brink of losing their effectiveness. The country with the greatest apportionment—America—has become the country in the greatest arrears.

The United Nations is being battered by one storm after another amid the changes in the world, and it is imperative that it change its appearance.

Reform Plan Is Multifarious

Just when the United Nations is hesitating at the crossroads during the substitution of the new for the old structure, calls by the international community for its reform are becoming louder. All kinds of suggestions, plans, and propositions, which "blot out the sky and cover the earth," have swooped down on the UN building.

Among those making suggestions are government officials, members of parliament or congress, specialist scholars, and even statesmen who have left office. The forms of the suggestions vary: there are statements, speeches, communiques, research reports, and also secret correspondence. In recent years, from various kinds of learned societies and foundations formed by statesmen alone, over a dozen suggested plans for reform of the United Nations have been put forward. For example, in 1988 the United States' UN Association and Ford Foundation put forward a "discussion agenda for a United States plan to build a more efficient United Nations"; in April 1991 about 30 statesmen from various parts of the world assembled in Sweden, where they

issued a 40-page report demanding a reorganization of the United Nations; etc. Particularly noteworthy is that some other international organizations have put forward their own plans for UN reform. In July 1991, a Western seven-nation summit issued a political manifesto for strengthening the United Nations' role. In 1992, at the 10th Nonaligned Countries Summit, the nonaligned countries also put forward a proposition for UN reform, and set up an expert group responsible for studying this matter.

Most of the propositions put forward by various sides proceed from their own interests, and they hope that in the world of the future the United Nations will develop in a direction advantageous to themselves. In particular, the propositions put forward by some Western great powers are a case of "Sima Zhao's ill intent is known to all"—the villain's design is obvious.

Suggestions for reform of the United Nations' purpose and basic principles remain for now in general diplomatic terms. Although some plans touch on the essence of problems, for a time "each chants his own scripture and each goes his own way," making coordination very difficult. Some specific suggestions for reforming the United Nations are, in the main, focused on the following points:

1. Revise the UN Charter so as to expand the number of seats for the permanent members of the Security Council. Voices demanding this come from two quarters: The first quarter is Japan and Germany. These two rising economic great powers seek the rescinding of the "enemy country clause" in the charter, and they strive to become at an early date permanent members of the Security Council. Japan has already worked out a basic plan for becoming a permanent member by the year 1995. The second quarter is the vast number of small and middle-sized countries. They demand that developing countries take seats as permanent members of the Security Council in order to change the five great powers' operating mechanism.

In addition, some countries have proposed certain revisions in the Security Council's veto power. Some advocate the rescinding of the veto power, others advocate the expansion of the number holding veto power, and still others advocate the two-vote veto system.

2. Make revisions in the UN peacekeeping operations. Secretary General Boutros-Ghali maintains that the United Nations should not be limited to just keeping the peace, but should "make peace," when necessary, by dispatching Armed Forces to a crisis area and intervening there. Some Western countries think that the United Nations should expand the scope and number of the obligations of its peacekeeping operations, so that it could intervene in a series of situations—from human rights and refugees to elections—that were originally one country's internal affairs. The great number of developing countries resolutely demand that the UN peacekeeping operations be supervised and administered, and

that these operations be put under the strict control of the United Nations and its Security Council. They particularly stress that the peacekeeping operations should not interfere in any country's internal affairs.

3. The United Nations should simplify its administrative structure and improve its work efficiency. On this question the positions of all sides are identical. However, there are still differences between the developed countries and the developing countries over specifics in this regard. The Western countries strongly demand that the UN staff be reduced, that its members be assigned to jobs in accord with their abilities, and that the restrictions of regional and national boundaries be eliminated. However, the developing countries worry that, because of discrepancies in educational and cultural quality, the staff members of many Third World countries will be listed as objects of reduction, the proportion of Western staff members will rise, and the United Nations will lose its wide-ranging representative nature.

Prologue To Reform Has Already Begun

With regard to the future of the United Nations, each side involved sticks to its own version. Sometimes they even become red-faced when disputing. However, the United Nations could not avoid, just when it had extricated itself from the quagmire of U.S.-Soviet confrontation during the Cold War, falling into "a mountain of words and a sea of writings" in disputes over the reform plan in the period when the new structure is replacing the old. Reform is the general trend, and the prologue to reform of the United Nations has begun amid voices in disagreement.

When Boutros-Ghali was elected UN secretary general, he "opened the door with three broadaxes" by making a fairly large-scale readjustment of the United Nations' administrative structure. He reduced the original Secretariat's 45 official posts to 30 and merged its original 12 departments into eight. He reduced the UN staff members from 11,409 in 1987 to 10,100 in 1992. He put the staff members under the international civil service workers system, under which the best are selected for posts.

Reform of the Security Council is being intensively discussed. On 11 December 1992, the UN General

Assembly passed a draft resolution entitled "The Question of a Just Distribution of Security Council Seats and an Increase in the Number of Its Members," which was put forward by 36 countries including India and Japan. It demands that "each member nation, before 30 June 1993, put forward its written opinion on whether the question of Security Council seats should be examined," and requests that the secretary general report this question for discussion at the 48th UN General Assembly, which opens in September of this year. America has expressed its support for Japan's and Germany's becoming permanent members of the Security Council. Russia has expressed its support of India's becoming a permanent member of the Security Council.

In reality, the peacekeeping operations are being quietly changed. UN peacekeeping operations have broken the UN Charter's provisions that troops would only be dispatched by the United Nations on invitation of the sovereign nation involved and that they would not intervene in that nation's internal affairs and would only supervise a cease-fire. Now, however, provided the UN Security Council passes a resolution it can carry out a peacekeeping operation without needing to obtain the sovereign nation's invitation. For example, in Somalia the plan for the UN peacekeeping operation did not obtain the agreement of that country's regime. In Haiti, the United Nations sent an observer group to supervise the elections in that country, and at that time Haiti was an independent country not involved in a conflict area.

The reform of the United Nations is continuing, but its path will be tortuous and very long. The reform will encounter many-sided resistance, and the reactions of the various sides to an increase in the number of seats for permanent members on the Security Council vary. Britain and France are extremely worried about Germany's joining, and for some Asian countries the history of Japan's militarism remains fresh in the memory. The revision of the veto power will directly involve the great powers' interests and also could cause new confusion. As for the scope of responsibility for peacekeeping operations, up to now there is no fairly clear and unified understanding. In the final analysis, the key to these divergent views is the essential differences between all sides on the question of the future trend and role of the United Nations. The path of reform is a long one, and each country still needs to search for it high and low.

Government Action Must Be Restrained by Law

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[Article by Zheng Fa (6774 4099): "Use Law To Restrain Government Action"]

[Text] Nowadays, in the process of pushing forward administrative structure reform and of changing the government's functions, many enterprises one after another have made the following appeal: Use sound laws to standardize and restrain government action; prevent the occurrence of impermissible phenomena such as some administrative bodies, in the name of "running entities," forming administrative groups of the "reverse-signboard company" type that intercept and arrogate to themselves the authority of enterprises and that supplant the enterprise's legal person status. They also called for one hundred percent implementation of the enterprise's right to act on its own initiative.

The main characteristic of the traditional planned economic system is a high degree of concentration of state power and of direct control. The relevant government departments are the allocators of authority and the executors of control. Under this system the government departments run the whole show and intervene in everything, thereby causing the government and the enterprise to be mixed together and the "two authorities" to be indivisible. The senior official's will replaces scientific decisionmaking, and administrative directives replace economic mechanisms. All of this seriously damages the rules of internal operation in economic development and stifles the enterprise's initiative in production and management. To change from a planned economy to a market economy, we must break this monopoly of authority and return the authority to the enterprise; to change the government's management functions, we must restrain government action within a reasonable scope. This is the premise and basis for changing the enterprise's operating mechanisms and building a competitive market system. Without an effective solution of this problem, the enterprise cannot truly become a main body of the market, and it will be difficult to establish the new system of a socialist market economy.

For some years we have taken measures such as the "economic responsibility system," "changing profits to taxes," and "contract system." Their aim has been to weaken government control, restrain government action, return authority to the enterprise, and also adjust functions to the market. However, generally speaking, there has been little progress and results have been minute. The authority that the central authorities decided to transfer to lower levels has, to different degrees, been intercepted and kept. The authority in the hands of certain departments and localities, in the form of "reform," has expanded and grown. From beginning to end the government's direct intervention in the enterprises has not stopped, and in certain period of times has even intensified. Obviously, making the government

departments consciously abandon their vested authority and interests, break away from their long-time unrestrained action inertia and change to limited scientific action, and restrain themselves is, of course, extremely difficult. Therefore, in the reform of changing functions and returning authority to the enterprise, besides taking economic and administrative measures, it will be difficult to effectively restrain government action without compulsion by laws and regulations.

The premise for using law to restrain government action in economic life is the scientific definition of the scope and mode of government action under market economy conditions, i.e., the correct judgment of the functions that the government should carry out. As the owner of state assets, the government should, through formulating interrelated laws and regulations, systems, policies, and measures, effectively control and supervise the management of state assets, ensuring that their value is protected and increased. As the macroeconomic regulator and controller of the economy, the government should, through determining the strategy for economic development, formulate an industrial policy, and apply financial, currency, and income policies, as well as various types of economic measures and interrelated legal measures, to keep the total national economy in good balance, to promote the optimization of the economic structure, to ensure fair competition in markets, and to achieve a unity of efficiency and fairness. Obviously, the government has a special position and role in economic activity. However, this does not negate this principle. In a market economy, the government and others engaged in economic activity are equal main bodies that bear different responsibilities and enjoy different rights and interests. It does not use its privileges to arbitrarily dominate other main bodies; the ties and the restrictions between them can be effected through the market and in accord with the market's laws and regulations. Therefore, the government's regulation of and intervention in enterprises can only be indirect. Any direct control is incompatible with the market economy. The government not only should treat other "persons" according to law; it itself must act according to law.

In the transition from a planned economy to a market economy, to effectively prevent an integration of authority and commodity business activity, and to ensure the healthy development of the new economic system, we must establish laws that set standards and restrain government action—government functionary law, planning law, investment law, financial law, state bank law, as well government department organization law; get a tight grip on the formulation of laws and regulations that inspect the consequences of government action; strengthen laws and regulations on the rights, responsibilities, and interests of other main bodies in economic activity; and use a series of laws and regulations to restrain administrative organizations from taking part in business activities, and stop the blending of super-economic privileges in market transactions.

Strict enforcement of the law is an important part and a key link in using law to restrain government action. For

some years we have made definite progress in the aspect of legislation of business management, in which are also laws and regulations that touch on standardizing and restraining government action, e.g., the "Enterprise Law" and the "Regulations on Transforming Industrial Enterprises Under the Ownership of the Whole People Into Business Organizations." However, from a look at the wave that rose up in the recent period of forming "reverse-signboard companies" and running "administrative groups," the results of implementing these laws and regulations have not been ideal. Some localities regard laws as mere scraps of paper and stick to their old way of doing things, thereby greatly hampering law enforcement. Therefore, strict law enforcement is an important task in exercising legal supervision and evaluation of government action that now demands prompt attention. In particular, law enforcement by government departments and their directly responsible officials is a

new topic facing us, and it needs to be explored in practice and its experiences summed up. But there is one point that should be affirmed: once government action exceeds the scope of law, it should suffer the sanctions of law. Only in this way can we truly standardize and restrain government action, and can we also protect the dignity of law and realize its proper effectiveness.

Scientifically delimiting and regulating the government's action in economic life, and meeting the demand of the market economy, involves changes in deep-level economic relations, and is a complex piece of systems engineering. While establishing sound relevant laws and regulations, we should get a tight grip on building inter-related systems in order to provide a good foundation of systems that restrain government action and in the end achieve legal control of government action.

NATIONAL AFFAIRS, POLICY

Research Group on Inflation Theories, Policies

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[Report by Taskforce on Anti-Inflationary Fiscal Policies. Taskforce leader: Ye Zhenpeng (0673 2182 7720). Report writers: Cong Anni (0654 1344 1200), Su Ming (5685 2494), and Liu Shangxi (0491 1424 1585): "Anti-Inflationary Theoretical Ideas and Policy Orientations for the 1990's"]

[Text] The 1990's is an extremely crucial period for China's modernization. At this time, how to ensure that inflation does not occur along with valid economic growth, is a major problem facing state macroeconomic regulation and control. This report emphasizes an exploration of certain anti-inflationary policy ideas and countermeasures for the 1990's, for the reference of macroeconomic policymakers.

I. The Theoretical Grounds for an Anti-Inflationary Policy in the 1990's: Responses to Several Controversial Questions

1. We Should Not Adopt Policy Inflation To Promote Economic Growth. But as Economic Growth and Inflation Rates Are Closely Related, Might We in Our Future Economic Development Adopt Policy Inflation To Promote Economic Growth?

We hold that under China's immediate conditions of a shortage of effective supply, we must absolutely not pursue an inflationary policy. This is because an inflationary policy requires certain conditions. For instance, under existing conditions, such as high unemployment, extreme economic depression, and a shortage of effective public demand, pursuing stimulative fiscal and monetary policies that would expand the money supply to increase public demand could certainly stimulate economic growth. While Keynesian theory on increasing public demand actually refers to these conditions, it certainly cannot be applied indiscriminately everywhere. As the stimulative effect of an increased money supply on economic growth is short-term, once all resources are fully utilized, a further increase in the money supply will cause prices to rise. While a one-time increase may not have too harmful an impact, continuous increases in the money supply will cause sustained price rises that will result in inflation.

At a given time, while an inflationary policy may not have a negative impact, it can still stimulate too fast economic growth. As the economies of developing countries are out of equilibrium and have dual structures, with little possibility of resource liquidation and redistribution, inflation increases the room for this possibility, playing a "starter" role in resource liquidation and redistribution. So resource shortages and "catch up" pressures often lead governments to intentionally or not practice a little inflation to stimulate their economies,

which is the source of the problem. If a government's inflationary policy becomes long-term, it will cause runaway inflation. So from a long-range analysis, an inflationary policy has a hundred cons but not one pro. Since the 1970's, all countries have favored anti-inflationary policies, which was a verdict reached through decades of bitter experience.

Theoretical studies show that an inflationary policy cannot promote economic growth.

1. In an inflationary climate, the uncertainty of economic operations grows, so that many opportunities to increase production are not utilized. The China System-Reform Studies Institute did a survey of 2,000 contracted enterprises (of which 72 percent were large- and medium-sized and 94 percent were highly competitive) in 1987, asking the number one problem that enterprises were most concerned about. Before contracting, 15.1 percent of enterprises responded "product sales and prices," and 24.7 percent replied "raw materials supply and prices," with these two answers adding up to 49.8 (sic) percent. After contracting, these two responses were 18.4 percent and 46.9 percent, respectively, adding up to 65.3 percent. This shows that entrepreneurs are most concerned about price uncertainty. Faced with steadily rising prices, entrepreneurs' expectations are often even higher, with production operation initiative undoubtedly being sharply affected, normal production operations being curbed, and much speculation appearing. This is extremely unfavorable to economic growth.

2. In our current situation of a still unbound market economy, inflation has a severely distorting impact on the pricing system. Sustained price increases certainly do not mean that the prices of all commodities are rising at the same rate. Some rise fast and others slowly, which distorts originally rational price relations and further exacerbates already distorted ones. The price-relations turnarounds in China's reforms were closely related to inflation. China's basic products, such as agricultural and mineral products, have always been too low in price. Despite repeated state upward-price adjustments, our key basic product prices remain subject to state planning and control, while many downstream products have long been too high in price, but subject to lax planning and control, and in some cases completely deregulated. Thus inflation increases the prices of products that are already too high even more, and raises the prices of products that are too low less, even keeping them completely static, which cancels out the impact of price adjustments, and returns price relations on a higher level to their former state. Distorted price relations make industrial structural-adjustment difficult, and mean that economic growth is bound to lack stamina. Our loss of economic vigor from 1989 to 1991 must be said to have been related to this.

3. Inflation leaves enterprises too little compensation for existing assets. China's depreciation rate is not high, and we have no so-called inflation accounting system, so that

most enterprises are in a state of using up their principal. This is even more evident in state-owned enterprises. This damages enterprise development stamina, making economic growth hard to sustain.

An analysis of China's basic national conditions shows that we are even less suited to an inflationary policy. As stated above, while China's resources are very abundant from an overall perspective, they are obviously quite deficient in terms of per capita share. So China is still overall a resource-poor country, and our key conflict in the present stage is not inadequate demand, but rather effective supply not keeping up with the growth in demand of economic construction and rising living standards, with particular supply shortages for basic products, such as power, communications and transportation, and raw materials. So it would be unrealistic to try to use an inflationary policy to stimulate economic growth, which could land us in Brazil's current plight if done wrong. Thus, an anti-inflationary policy should become one of China's basic macroeconomic policy orientations for the 1990's.

2. In Our Future Reform Process, Too Great Expectations of Price Stability Would Also Be Unrealistic.

As taking active subjective anti-inflationary steps certainly does not mean that inflation does not exist objectively, we need to make a dialectical analysis of this. We need to objectively recognize that a certain degree of inflation in the 1990's will be unavoidable, so that we can take active and forceful anti-inflationary steps.

Why do we say that there will be less price stability in our coming reform process?

1. Our shortage of agricultural products is bound to drive agricultural-product prices up. The common pattern for all countries is that in the transition stage of living standards from having enough to eat and wear to being comfortably well-off, there is bound to be increasing high-level consumer demand for agricultural products. In China at present, our per capita agricultural-product output falls far short of the goal we need to reach for the year 2000, and we are below the world average in this respect. When projecting our overall public demand for agricultural products in the year 2000, we must also figure in the factor of our population increase in the 1990's of 100 million plus. As grain is a fundamental base, let us take grain as an example. As to the current per capita grain consumption in large- and medium-sized cities throughout China, while grain rations are decreasing year after year, our per capita consumption has reached about 500 kg including the amount of grain needed for conversion into animal-type foods, with average grain consumption in Beijing Municipality topping 600 kg. From the angle of this development trend, while China's future agricultural-product demand will grow most irrepressibly, there will be very little supply flexibility, so that the conflict between supply and demand will sharpen steadily. So the very rapid increase

in our food-consumption outlay (our per capita food-consumption outlay is projected to grow 170 percent from now to the end of the century) will be bound to push overall prices up.

2. As basic industrial-goods prices are too low, their price adjustment and deregulation through price reform will also be bound to push overall prices up. Since reform, while the longstanding too low state of the prices of China's basic industrial goods, such as coal, oil, and rolled steel, has been improved somewhat through price adjustments, these prices are still too low in relation to those of manufactured industrial goods. For instance, while the planned price of oil has been adjusted to about 200 yuan a ton, resource-compensation is still lacking, with the price still being lower than the per-ton oil cost, which is 270 yuan in Central Plains oilfields, and almost 300 yuan in North China oilfields. The entire coal industry has sustained losses in recent years, severely hampering coal-industry development. In order to change this situation to strengthen basic-industry development stamina, large prices increases for basic industrial goods are imperative.

3. In the 1990's, as we open up to the outside world faster, particularly as we recover our status as a GATT signatory, China's economy is going to have increasingly closer ties to the international economy, which will be bound to close up China's market prices with international market prices. While China had long practiced an import-substitute development strategy, in which domestic market prices were out of line with international market prices, and the domestic prices of certain imported investment products had always been too low, this situation has been largely improved since we began to reform and open up. As the share of foreign trade in China's GNP is now about 36 percent, it can be stated with certainty that this share will further increase as the international economy becomes more integrated. So it goes without saying that international market prices will become reference material for China's price adjustment and price reform, meaning that a gradual closing up with them will be an unavoidable process. Continuing with the price of oil for example, the current international market price of oil is generally about \$20 a barrel which, converted into RMB is more than 740 yuan a ton, or over 500 yuan a ton higher than China's market price for oil. Even high-priced oil in China's market is only 640 yuan a ton, still over 100 yuan less than the international market price for oil. This is so not only for oil, as many Chinese products are out of line with international market prices, so that closing up with them will be a general trend. Thus it can be predicted that faced with international markets in the future, China's economy will no longer be able to stubbornly emphasize price stability, meaning that a moderate amount of inflation will be unavoidable.

4. As making prices more market-oriented has become our basic price-reform orientation, our percentage of planned prices will gradually decrease, and independent pricing by enterprises will become our fundamental

pricing form. Also, it is no use denying that this will bring an overall rise in prices. This is another unavoidable process in rationalizing our economic relations. During the period when we are changing track from planned pricing to enterprise pricing and from price control to price deregulation, price fluctuations will involve many factors that are relatively independent of the degree of money-supply control. For instance, the proposal for a price-reform "breakthrough" in 1988 resulted in price rises of more than 18.5 percent that year. This involved changes due to resident expectations about price reform. Then in 1990, while the money supply grew at a rate of about 25 percent, prices obviously did not rise. This involved factors, such as changes in the consumer structure, and the production structure not being suited to the consumption structure. While sustained price rises can all be ultimately summed up as a monetary phenomenon, as commodity prices cannot rise without the corresponding monetary support, the initial inducement to price rises is not necessarily monetary expansion. During the transition period, even with a perfect money-supply control system, overall commodity-price rises are still hard to prevent, not to speak of the frequent out-of-control state of China's money supply.

5. Industrial structural adjustment is another factor spurring price rises. The process of industrial structural adjustment is also one of resource liquidation and redistribution. In a money economy, this process is guided by monetary operations. For instance, if the money supply is right before structural adjustment, then there is no way to avoid increasing it to stimulate structural adjustment. Within sectors, inventory adjustment is often the major form, through things such as mergers, coalitions, or groupings. As to state-owned enterprises, while they might make use of the administrative forces of their responsible departments to achieve this, a certain extra amount of upgrading funds is still essential. In nonstate-owned enterprises, the inventory-adjustment process might increase monetary demand, thus inducing an increase in the money supply. But as structural adjustment occurs mainly among sectors, and assets-equipment is not interchangeable, inventory adjustment is often limited, so that generated adjustment is usually the major form. It is thus self-evident that this process sharply increases monetary demand, so that an increased money supply is a quite natural matter. As output lags behind adjustment, which cannot be accomplished in a short period, the resulting increased money supply will spur price rises.

6. The inherent impulse of local governments for faster growth is similarly a key factor promoting overall price rises. As China is a large developing country, local government actions have a great impact, sometimes even becoming the crucial factor. Especially since administrative authority was devolved to lower levels, local interests have tended to become increasingly stronger, with localities having great substantial rights to speak on economic matters. Under our current banking system, the local impulse for faster growth generally translates

into pressure on banks, forcing banks to increase the money supply, and forming the so-called "reverse-force mechanism." Until our political and banking systems are sharply changed, this will be hard to prevent.

As China's price stability will experience great pressure in the 1990's, an overemphasis on "stability" might result instead in instability. So the government ought to adopt a policy in its ideological concepts and policy principles of active prevention and moderate curbing, in order to keep from touching off inflation.

3. The Price of an Anti-Inflationary Policy Will Be Slowing Down Too Fast Growth, Not Sacrificing Speed.

Studies show that China's economic growth rate and inflation contain certain correlations. China's past experience shows that once a certain economic growth rate is reached, faster economic growth often results in a higher inflation rate. This leads to the question: if preventing inflation necessarily means slowing the economic growth rate, then might this not obstruct the shrinking of the gap between China as a developing country and the Western industrialized nations?

Developing countries certainly need to maintain a high economic growth rate, as well as conscientiously basing this rate on improved structures, an emphasis on efficiency, and conformance to market demand. While we need to make full use of domestic and foreign conditions to speed up our growth rate, China's historic experience teaches us that we must keep our economy from growing too fast. If it is said that a high economic growth rate will not cause a high inflation rate, then the faster the growth rate the better. But China is certainly not equipped at the current stage with the conditions to establish this proposition. 1) *Industrial structure*. China's existing industrial structure is very irrational, with too much manufacturing-industry production capability, and a severe shortage of basic industries and public infrastructures. Faced with such an irrational structure, the maximum limit of growth rate determines the degree of improvement and growth rate of our deficient sectors. Striving for speed without regard for this limiting condition would inevitably create a worse shortage of basic products, and drive commodity prices up. In addition, our huge historical gap between industry and agriculture, i.e., the so-called dual structure, also limits our growth rate. So high growth without regard for this point can bring only inflation. 2) *Technology level*. This is the greatest limiting factor in China's economic growth. As China's technology level is still generally low, with our economic growth for decades having basically taken the path of extensive operations, China's economy is still essentially a resource-dependent one. China's per unit GNP consumption of resources, such as power, water, land, and produced transport capacity is higher than that of developed countries by several or even dozens of times. If China chooses a too high growth rate, then it will have to produce basic products, such as iron and steel, power, chemical products, and building materials. As these things are already in severely short supply, this

would be hard to achieve. Even if it could, it would come only at the price of high inflation. 3) *Resource abundance*. Even if the abovementioned two problems were solved, i.e., we had a rational structure and higher technology level, our resource abundance would remain a key limiting factor in our economic growth. While the integration of the international economy might reduce this limitation to a certain degree, it will also exacerbate other more rigorous limitations, such as international competitiveness and trade barriers. In China, we have an irrational structure and low level of technology on the one hand, along with a relative lack of resources on the other, in that our per capita resource-possession is lower than the world average in many respects. As this strengthens the limitations of resources on our economic growth, China's economy objectively cannot choose the superhigh growth route.

From this we can reach the conclusion that what we need is rapid economic growth based on an essentially balanced structure, better efficiency, and products suited to market demand, not superhigh growth exceeding our immediate resource possibilities and propped up by an increased money supply. So an anti-inflationary policy must be premised on slowing our too rapid growth rate. If this is said to be a "cost," then it is a necessary one, which will certainly not hamper our rapid economic growth, but can only instead provide a better climate for economic growth.

II. Basic Thoughts and Countermeasures for an Anti-Inflationary Policy in the 1990's: Economize on Resources, Control Speed, and Adjust Policies

1. The Severe Inflationary Pressures That We Are Facing in the 1990's

As key aspects of our economic climate of the 1990's are similar to those of the 1980's, in addition to other distinct economic-development features of the 1990's, China is going to be faced in the 1990's with severe inflationary pressures. These pressures will come from the following areas: 1) Our resource limitations will be even sharper, with continuing effective-supply shortages of power, transportation, and basic raw materials. China's resource limitations in the 1990's will be even worse than the 1980's. Our agricultural-resource development focused on water and soil now needs an enormous input. And unless we make a significant breakthrough in our geological prospecting, a sizeable part of our mineral products will not meet demand by the end of the century. Meanwhile, as our industrial structure and product technology mix are irrational, meaning a process of structural adjustment, our problem of low efficiency is going to take time to solve. With high input, low output, and strong resource limitations, this is bound to further exacerbate our overall supply shortage, thus adding to inflationary pressure. Moreover, as our grain-supply situation will not improve much, and our food-consumption supply and demand conflicts will worsen, rising prices centered on food-consumption prices will remain a long-term trend. 2) Our economy will grow

faster, which will add to inflationary pressures. Since the improvement and rectification campaign has ended, our economic climate has been relatively eased, and there has been a very strong demand for faster growth in all areas. Due to the correlation between growth rate and inflation rate, inflationary pressure will also grow. 3) The market impact will grow, and the force of international economic infiltration will increase. In the 1990's, China's economic reforms will enter a new stage, in which the market impact will grow, and the form of regulation and control will be converted, which will increase price instability. Meanwhile, the integration momentum of the international economy will continue to grow, which will also bring an increasingly stronger infiltration force into China's open economy. As foreign investment will increase, our imports and exports will be up, and international commodity and labor prices will have a greater impact on domestic prices, this will form a chain reaction that will also become a key factor in our price levels in the 1990's.

In short, in comparison to the 1980's, while China's economy will grow faster in the 1990's and we will open up more, our economic climate will be more complex, which will mean continued stronger inflationary pressures in the 1990's. Moreover, our policy and system factors that set off inflation in the 1980's will still have an impact. 1) Our mistakes and loss of control in the 1980s will have aftereffects. For instance, the great discrepancy in our fixed assets inventory structure caused by years of a slanted investment orientation will be hard to rectify for a while, and our distribution forces created by a reform overemphasis on local and departmental interests will take time to resolve. 2) During the stage when our policies and systems are being adjusted and converted, new mistakes might be made. As economic reform is a complex and gradual process, in which it is necessary to constantly explore, abandon the old, and display the new, it will be difficult to avoid making mistakes of one kind or another. New mistakes may also add to the inflationary pressures that come with economic growth. In summary, China's inflationary pressures in the 1990's are going to grow faster, which we must absolutely not treat lightly.

2. A Basic Anti-Inflationary Policy Orientation for the 1990's

In order to prevent a situation in which rapid growth and high inflation coexist and, in light of our increased inflationary pressures in the 1990's, we should act based on the dual factors that contributed to inflation in the 1980's, and proceed from China's basic national realities, by taking practical anti-inflationary steps to effectively control inflation. Our key policy-orientation agenda should include:

A. We Should Adhere to Anti-Inflationary Policies and Principles, by Making Two Changes in Our Guiding Ideology.

First, in our macroeconomic policy orientation, we should not pursue stimulative and expansionary fiscal

and monetary policies. As China's basic national limitations mean that expansionary fiscal and monetary policies might touch off runaway inflation, we will need to do all that we can in the 1990's to prevent worse inflationary pressures due to policy and system mistakes. This will mean two changes in our guiding ideology: 1) We must change from passive improvement to active prevention. In the 1980's, we were often forced to adjust our growth rate when severe inflation occurred, by adopting a tight policy, which lowered our macroeconomic efficiency, while affecting the stability of livelihoods. Thus, during the 1990's, we will need to adopt the tactics of scientific projections, active regulation and control, and mostly prevention, in order to avoid the pain of large adjustments and improvements. 2) We will need to change from impatience for quick results to acting in accordance with our capabilities. We must make full use of all favorable factors, exert all of our efforts, and strive to grow our economy faster. Historical experience shows that the key to preventing inflation in China is not being impatient for quick results in economic development. We need to focus on long-range development, by handling well the dialectical relationship between national might and development. While rapid economic growth contributes to a faster enhancement of overall national might, rapid economic growth must be based on the necessary input of national might (resources, technology, and human and financial capital), and is premised on an effective use of national might (a rational disposition of resources and higher input-output efficiency).

B. We Should Abandon the Extensive Economic Development Route, By Establishing a Resource-Conservation National Economy.

As the inflationary pressures in China's economic development come mostly from sharp resource limitations and the resulting shortage of effective supply in relation to economic construction and higher living standards, reducing our inflationary pressures in the 1990's will mean clarifying in our future economic development strategy that China must not take the past traditional route of extensive economic development, but rather must establish a conservation-type national economy with low consumption of resources. In choosing economic development plans and economic target parameters for the 1990's, we must follow this line of thinking, of which the major substance is: 1) We need to strictly control the possession quotas for resources that are in short supply. Even though our national income is up sharply, the factors of our huge population and our low industrial development level mean that we need to strictly control the use of those resources that are in short domestic supply and cannot be imported or would cost too much to import. Meanwhile, we need to make use of advanced S&T to upgrade our industrial structure, so that we can create more economic value with less resources. 2) We need to promote moderate consumption. The consumer structure is in a certain sense the most concentrated reflection of the socioeconomic structure. Western countries entering the post-industrial stage

simultaneously became high-consumption societies. But in light of China's national conditions, we need to establish a consumer structure that is different from the Western model, by establishing a livelihood service system characterized by industriousness and conservation. This will include keeping our food-consumption structure mostly vegetable foods, while developing grain-conservation animal products and food-processing industries with high conversion rates; developing chemical fibers and blended fabrics as cotton cloth substitutes, in order to lighten the pressure on our cultivated land area; promoting apartment-type dwellings; and making our transportation development mostly public transportation. 3) We need to adjust our resource prices. In our product costs and pricing structure, we must act according to market economy principles, by taking the factor of resource compensation into full consideration. Moreover, we must rationalize the price relations among the three factors of resources, raw materials, and manufactured goods, by establishing a centralized resource-flow system, breaking down regional blockades, further developing international business and trade, and adjusting our resource surpluses and shortages. In short, establishing a resource-conservation national economy will affect our future industrial structure and consumption policy, which in principle and thinking is a practical choice in line with China's national realities.

As economic growth rate and inflationary pressure contain correlations, seeking a rational growth rate is a key condition for curbing inflation and preventing runaway inflation. Taking active prevention steps focused on conscious regulation and control of the growth rate to balance the economic growth rate with inflationary pressures is the basic point of procedure and policy objective of our anti-inflationary thinking for the 1990's. As the government macroeconomic regulation and control objective of certain developed countries is mainly to reconcile the economic growth rate with the inflation rate (including the employment rate), focusing on regulating and controlling our economic growth and inflation rates will be one of the key items in our system conversion, and in reform of our state macroeconomic regulation and control form.

We hold that our 1990's average economic growth rate should be kept at about 8-9 percent (calculated at constant prices), while our inflation rate should go no higher than 6 percent. Our grounds for making these rates our state macroeconomic regulation and control warning lines (critical points) are: 1) In light of China's national conditions, an 8-percent growth rate contributes to consideration of the relations between rapid and balanced growth. According to our national economy's 10-year plan, our economic growth rate for the 1990's needs to be only about 6 percent, in order for us to reach our strategic goal of quadrupling our GNP. But during the decade previous to our improvement and rectification campaign, our society's gross output grew at a rate of 11.2 percent a year, and our national income grew at a rate of 9.3 percent a year. In China, rapid economic

growth is affected mainly by resource-use efficiency and industrial-structure balance so that, as long as efficiency is good and the structure is relatively balanced, faster growth is okay. But an analysis of our current economic growth trend shows our actual growth to be higher than the designated plans. But it must not go too high, and ought to be kept at a maximum average of 8 percent, which is in line with our actual conditions. Maintaining this growth rate will help to enhance our national might and raise our living standards. But too rapid growth would cause a high inflation rate, worsen our economic climate, and affect the balanced growth of our economy. 2) While a 6 percent inflation warning line is high, it is publicly sustainable. From 1978 to 1990, our urban and rural incomes grew very quickly, with peasant net incomes and urban employee payrolls growing at average annual rates of 13.67 percent and 14.54 percent, respectively. While it will be hard to maintain this too rapid income growth in the 1990's (as the state will have to adjust its individual distribution policy), as long as there is sustained economic growth, income and consumption levels will still rise steadily. Using a simple accounting, if our urban and rural income growth rate in the 1990's is two to three points lower than it was in the 1980's, even discounting for an expected 6 percent increase in commodity prices, then the real incomes of urban and rural people in the 1990's can be expected to grow at an average rate of 5 to 6 percent a year. In other words, even considering the projected inflation factor, not only will our living standards not fall, but they will even rise some. Of course, while the inflation rate must not go too high, which would be bound to affect living standards and arouse discontent, a 6-percent inflation rate will not be a shock to the public. In addition, as the 1980's have already formed a public psychological expectation about inflation, the public can sustain a 6 percent top-limit inflation rate. 3) While these 8 to 9 percent or 6 percent rates are average trends, being government regulation and control targets, they may fluctuate somewhat from year to year. What we are speaking of are 8 percent or 6 percent average annual increases for the 1990's throughout China, which may vary somewhat from year to year, by region, and between urban and rural areas. In zones where special policies are practiced in particular, growth and inflation rates may be slightly higher. But from a national macroeconomic regulation and control perspective, our overall goal should be to control our growth at no higher than 8-9 percent and keep inflation under 6 percent as our basic quantitative limits. Otherwise, as in certain years in the 1980's, our growth would reach double digits for a superhigh rate, and our inflation rate would also go into double digits for severe inflation, which is precisely the phenomenon of rapid growth coexisting with high inflation that we must avoid. Once such a phenomenon occurs, there is nothing left but adjustment, which sharply lowers growth. Such volatility with lack of control results in economic pain and public discontent.

C. We Should Adjust Our Individual Income-Distribution Policy, By Reversing the Trend of Distribution Being Overslanted Toward the Individual.

While moderately slanting national income distribution toward the individual in the course of reform is necessary to change the past irrational national income distribution structure, the problem is in the overslanting. In comparison to either national income (GNP) growth or all labor-productivity indexes, or in consideration of the objective needs of national income distribution at the current development stage of China's economy, China's national income distribution throughout the 1980's was subject to longstanding and sustained overslanting toward the individual, exceeding the growth of labor productivity and national income, being severely irrational, and having increasingly clearer negative effects. This not only lowered the percentage of national revenue, weakened enterprise self-accumulation capability, and increasingly based economic development on high debt, but also caused cash incomes to grow too fast, making policy control of M_1 (cash plus demand deposits) quite difficult, and causing hidden inflation. So in light of the current overall macroeconomic situation, we must determine to reverse the order of national income distribution being slanted to much toward the individual, which will be the basis for the short- and mid-range adjustment of our macroeconomic individual-income distribution policy, as well as a key anti-inflationary measure.

In order to improve our individual income distribution policy, we are making the following recommendations: 1) We need to make efforts to draw up an overall scientific income distribution policy for our whole society, not simply a wage policy, in order to guide and adjust all income distribution throughout our society. 2) We need to establish an enterprise inflation system, particularly an inflation accounting system. That is, based on the inflation situation at the time, the state should moderately adjust the assets values and depreciation rates of various industries and enterprises, in order to guarantee the value of state-owned fixed assets, and keep employee wages and profits from eroding assets. 3) In light of the imbalance in national accumulation and consumption and the straitened fiscal conditions in recent years, we should appropriately raise the percentage of financial resources in new national income that is distributed by state revenue, to be used for building key infrastructures. Employee wages should not grow faster than labor productivity. 4) There is now a pressing need to reorganize our various forms of employee above-wage cash and in-kind incomes, in order to make employee incomes open (restricting covert incomes), more monetary (restricting the widespread slant toward in-kind incomes), and standardized (restricting income channels under a host of pretexts), which would have key significance in eliminating and preventing inflation, and in improving our macroeconomic control. 5) In combination with the gradual reform reduction of various state welfare subsidies to urban residents, we need to set up a standardized social

security system. This would help to curb the trend of expanding incomes and consumption by urban residents, as well as helping to rationalize price relations, adjust the consumption structure, and alleviate state-revenue difficulties.

D. Mid- and Long-Range Fiscal-Policy Operations

In the course of preventing inflation, fiscal policy plays a key role. In order to gradually achieve a basic balance of revenue and expenditure and overcome our current fiscal difficulties, our coming fiscal-policy operations need to be sharply adjusted and reformed in the following key areas:

1) We need to gradually establish a flexible tax structure. China's current tax structure lacks flexibility, with economic growth not only not bringing natural tax growth, but even being subject to a regressive trend. This involves a too narrow tax base, too slanted tax categories, and too many tax reductions and exemptions. China's tax structure was designed for the business sector, mostly state-owned enterprises. While reform has added many tax categories and adjusted tax rates, it has still not changed the basic framework. Our national income distribution order has now undergone great changes, with the share of individual income in national income distribution being over 70 percent. Meanwhile, township enterprises and the private economy have experienced great developments. So we need to further improve our existing tax model, by on one hand giving consideration to gradually making the nonstate economy and individual income a key tax-revenue source, while unifying our tax system on the other, so that all economic components come under the same tax system instead of being treated differently.

2) We need to rationalize our revenue distribution relations. As our current fiscal difficulties are mainly policy and system problems caused by irrational distribution relations, reforming our allocation system and rationalizing our distribution relations will be key links in overcoming our fiscal difficulties and reconciling our conflict between overall supply and demand. A) We need to separate taxes from profits, in order to improve the distribution relations between the state and enterprises. We now need to continue emphasizing and expanding our enterprise experiments in the separation of profits from taxes, striving to put this into full-scale operation within two or three years, in order to gradually evolve a mechanism for simultaneous increases in state revenue and economic growth. B) We need to practice a tax-separation revenue system, in order to rationalize the distribution relations between the central and local governments. In 1992, nine provinces, regions, and municipalities throughout China were already taking the lead in experimenting with tax separation, showing that China's revenue management has taken another key step forward on the track of developing a socialist commodity economy. Our future mission is to work hard to do a good job of tax-separation reform experiments, by constantly summing up our experiences,

perfecting our methods, and striving to make tax separation universal throughout China during the Eighth Five-Year Plan. This will arouse the initiative of local revenue organizers, stabilize central revenues, and enhance the central government's macroeconomic regulation and control capabilities.

3) We need to pursue an effective expense-cutting policy. The state's current outlay-control system is similarly unsuited to developing circumstances, with an irrational outlay structure, expenditures growing too fast, and revenue not meeting expenditure becoming an increasingly glaring problem, which is becoming a tough fiscal-balance problem. The most fundamental way to resolve this is to establish effective outlay-control policies and reform measures. In combination with political-system reform, involving sharp cutbacks in administrative organs, and along with vigorous development of tertiary industries and a socialized service system, we need to make sharp staff cutbacks, which will be an effective way of resolving the serious and longstanding matter of huge administrative costs and outlays. We need to continue to intensify our agricultural-product purchasing and marketing price reform, by eliminating the various agricultural-product price subsidies to urban residents. We need to conscientiously push enterprises toward markets, by establishing mechanisms for fair competition and excellence through competition, resolutely allowing enterprises whose assets are less than their liabilities to go bankrupt, and reducing or eliminating state subsidies for enterprise operating losses. In addition, we also need to speed up our housing and social security reforms. In short, we need to change the overburden on state revenue, in order to establish a more suitable post-reform revenue-distribution structure.

4) We need to better coordinate our fiscal policy with our bank monetary policy. Finance and banking are two sectors of macroeconomic control of public finances, so that close coordination between fiscal and banking policies contributes to economic stimulation and overall stability. In order to more effectively fight inflation, we must emphasize and rationalize the distribution relations between finance and banking. There are two matters here that need to be studied and resolved: A) As our immediate financial deficits will be hard to completely eliminate, deficit supplementation will reduce overdrafts on banks and increase government bond offerings. As central fiscal deficits are a sort of construction-budget deficit, with debts being an essential supplementary source in raising construction funds, using a given percentage of bank's additional deposits each year through national construction bonds for priority construction projects is necessary, rational, and helpful in adjusting the social fund-use and industrial structures. In addition, the state sale of bonds is an adjustment of the public purchasing-power structure, which does not affect the overall balance between supply and demand. Of course, bonds sold by the state must eventually be redeemed, meaning that we need to establish regular bond-redemption forces, in order to avoid credit and fiscal

crises, the keys to which are raising debt-income investment efficiency and keeping debt within appropriate limits. B) The government needs to make currency stabilization its primary banking regulation and control aim, the keys to which are controlling loans (mainly strictly controlling fixed assets investment loans) and adjusting the lending structure, in order to reduce currency issue and stabilize the currency value. China's economic reforms are in a key period of conversion to a market economy in the 1990's. If it is said that the direct cause of inflation under a planned economy was mostly overheated capital construction investment within the budget due to state planning errors, then this can be controlled mainly through cutting back the state's capital construction investment. But inflation under a market economy is caused mainly by national income distribution exceeding immediate public resource possibilities, creating too much public investment and consumption, not by loss of control over investment by state planning. So we must prevent inflation by enhancing our macroeconomic regulation and control of our overall public finances and structures. During the 1990 economic-model conversion process, strengthening central bank macroeconomic regulation and control over overall credit and the money supply will be a decisive step in determining whether China can control future inflation.

PROVINCIAL

Characteristics of Xinjiang Border Trade Viewed

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16 Apr 93 p 4

[Article by Yan Bian (0917 6708): "Several Viewpoints on the Development of Xinjiang Autonomous Region's Border Trade"]

[Text] In recent years, the Xinjiang Autonomous Regional Party Committee has adopted the strategic principle of "using geographical advantages to develop advantages in natural resources and giving priority to trade to effect an industrial chain reaction." Developing the economy by allowing trade to go ahead of other sectors has become the center of current economic work.

There are three forms of foreign trade in Xinjiang: National, provincial, and local border trade. Judging from the trend of development, local border trade not only will become the main form of trade for a fairly long time to come, but will also have an unprecedentedly great influence on the opening up and economic trade of our region as a whole.

1. History, the Current Situation, and Characteristics of Local Border Trade

The course of development of local border trade has an inseparable relationship to foreign economic relations and trade. China's trade with the Commonwealth of Independent States can generally be divided into three stages: The first stage was the development period of

economy and trade in the 1950's. The Soviets offered low-interest loans for China to import technology and equipment, causing trade between the two countries to develop by leaps and bounds. The second stage was the period from trade suspension to restoration during the 1960's and the 1970's. The third stage was the period of economic and trade improvement which began in the 1980's. Ports have been opened, and foreign trade decision-making power has been expanded, enabling local border trade to become a new force suddenly coming to the fore.

The primary characteristic of China's trade with the Commonwealth of Independent States is common economic interests. The second characteristic is the complementary nature of exports and commodity exchanges. In commodity exchange and economic and technological cooperation between the two countries, "oversupplied" Chinese goods, such as light industrial and textile products, food, household chemical products, and electronics, are in great demand in the Commonwealth of Independent States while automobiles, electricity, chemical fertilizer, and timber from the Commonwealth happen to be in short supply in China. This complementary nature has created favorable conditions for vigorous trade development between the two nations. The third characteristic is flexibility and timeliness in the form of management. The form of trade practiced by the Commonwealth is simple. Orders are placed randomly without any fixed patterns. As the tempo of reform and opening up accelerates, China encourages the simultaneous development of state, collective, and private economies. This is conducive to developing flexible and diversified border trade and accelerating frequent imports, exports, and exchanges. The economic environment the two countries are in and the economic policies they have adopted will help border trade become flexible and diversified and achieve greater economic returns.

2. Basic Considerations for the Development of Local Border Trade in Xinjiang

Support ports are the basis for developing local border trade in Xinjiang. In 1982 China opened the Huo-er-guo-si and Tu-er-duo-te ports of Xinjiang. After 1988 almost all ports bordering various states of the Commonwealth were opened to trade with the Commonwealth. The Commonwealth has become one of the most important trade partners of Xinjiang. Trade has been conducted in various forms with barter as the main method. The opening of these ports has injected vitality into the foreign trade of the autonomous region. A preliminary multi-channel and multi-level border trade network has taken shape from the autonomous region to prefectures, autonomous prefectures, and border counties, from industry to commerce, grain, supply and market, animal husbandry, and various divisions and regiments of production and construction corps, and from state to collective and individually-run economies. These ports will become an important base for exports of China and other countries to the Commonwealth of Independent States.

Exchange of trade is the point of breakthrough for border trade. In order to solve the "shortage" problem, various nations of the Commonwealth have placed the focus of trade development on China. A main reason is that China, especially provinces and autonomous regions bordering the Commonwealth, complements the Commonwealth in economic structure and product mix. Another reason is that the opening of border ports has created a convenient land passage.

3. The Export of Labor Is a Temporary Feature for Border Trade

The Commonwealth has a vast territory and a small population. It has a serious shortage of production technicians and workers in the areas of lumbering, construction, repair, mining, agriculture, and animal husbandry. The Commonwealth has a great demand for Xinjiang labor. Heihe has already gained experience in this regard. The main form of labor export is contracts for coordinated projects. Some labor is exported for single projects. The Commonwealth cooperates by offering compensation in the form of products. In 1989, Heihe sent 200 lumberjacks to contract for the clearing of 16,000 hectares of forest land and 400 construction workers and technicians to contract for the interior decorating of 56,000 square meters of hospitals, tourist hotels, and theaters. For clearing the forest alone, Heihe received 30,000 cubic meters of timber as compensation. Manzhouli carried out agricultural and economic cooperation with the Commonwealth. The Chinese provided duty-free land and the Commonwealth provided machinery, bulldozers, excavators, and combine planters to reclaim wasteland, plant crops, and build houses. The Commonwealth used the farm and sideline products they harvested to exchange for Chinese light industrial products. We should borrow the experience of neighboring provinces and cities and focus as soon as possible on doing a good job in labor export to create even greater economic returns.

4. Economic and Technological Cooperation Is the Step for Local Border Trade To Ascend to a Higher Level

Local border trade developing from simple trade and export to economic and technological cooperation is an inevitable trend of development. We should pay proper attention to it. The focal point of economic cooperation is the industry of processing imported materials. Opinion polls indicate that among various states of the Commonwealth, 16 groups want to carry out economic and technological cooperation and 13 groups want to conduct technological exchanges with Xinjiang Autonomous Region. They urgently need to cooperate with the region's food industry, light industry, commerce and trade, grain, edible-oil, and machinery industries. In light of the needs of different bordering nations, we should carry out zoning of ports, border counties, cities, and military bases to establish export goods processing zones: 1) food export processing zones focusing on various canned and stewed products, ham, lunch meat, vermicelli, and cookies; 2) animal product processing

zones focusing on processing imported leather and hide and tanned products; 3) light industrial processing zones focusing on disposable chopsticks, toothpicks, processing of imported birch wood and weaving materials, household chemical plants, and cigarette plants; 4) textile industrial processing zones focusing on clothing factories and processing of imported yarn; 5) construction materials processing zones focusing on processing of imported glass blocks, floor tiles, and wood shingles. Currently many coastal developed provinces and municipalities have come to Urumqi to seek joint management. They are very interested in business in this area. They are totally able to seize the opportunity, make the best of the situation, and use the policy of preferential treatment to attract inland joint management to jointly build export goods processing zones in the autonomous region, gradually develop an export-oriented economy, and push local border trade to the international market. We can also learn from the experience of Manzhouli and cooperate with the Commonwealth to establish bilateral trade zones while establishing export goods processing zones. This can not only increase the prosperity of ports but also accelerate trade and expand the effect of export goods processing zones. It can give impetus to the development of preliminary export processing industry of local township enterprises and accelerate the construction of bases of farm products for exports, thus promoting the principle of using the geographical advantage of the autonomous region to promote advantages in natural resources and allowing trade to advance ahead of others to bring about an industrial chain reaction.

FINANCE, BANKING

Challenges for Financial System, Meeting GATT Requirements

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[Article by Wang Lujin, affiliated with Xiamen University: "The Restoration of China's GATT Membership and Financial Measures for Coping with the Change"]

[Text] As is known to all, the restoration of China's GATT membership will affect not only the import trade but also the overall economic development of China. From a long-term perspective, it will certainly be helpful to the economic development of China and facilitate the growth of financial capabilities and the fundamental improvement of the financial situation of China. But in the near term it will test the Chinese economy, create difficulties for—and present challenges to—the fiscal work of China, and demand that China, in its fiscal work, adopt certain measures for coping with the change.

1. The Difficulties and Challenges the Restoration of China's GATT Membership Creates for, and Presents to, the Fiscal Work of China

(1) Difficulties Concerning Balancing Fiscal Revenues and Expenditures.

The restoration of China's GATT membership requires that China perform its obligations of providing tariff concessions. Of course, it is not proper to simply assert that such concessions will lead to a reduction in fiscal revenues, and analysis of specifics would be needed. The restoration of China's GATT membership will certainly lead to an increase in export and import trade; but as export duties are extremely light, the impact of export duties can be disregarded. In other words, the main factors affecting China's tariff revenues will be the volume of import and the tariff rates applied to imports. The following will be some further analysis.

First, how much tariff concession should China grant? China's existing import tariff rate (weighted average tariff rate; the same below) is the highest among the developing countries. The average import tariff rate of the Western developed countries is now under 5 percent, while the average import tariff rate of the developing countries has also fallen to 13 percent. Even if China, after granting some tariff concession, maintains an import tariff rate higher (but unlikely to be much higher) than the average rate of the developing countries, by, for instance, lowering the rate to 15 percent from 22.5 percent at present, the rate would still be reduced by 33.3 percent (that is, a one-third reduction). At the same time, in the near term, China is unlikely to dramatically open up its domestic market, but will apply necessary restrictions which would be as stringent as allowed by the relevant provisions of the GATT. As a result, naturally, the volume of China's import trade is unlikely to suddenly increase a lot. Furthermore, China's import tariff rate will inevitably be brought down to the average level of the developing countries, or even lower, within a certain period of time. Thus, from an overall perspective, China's granting of tariff concessions will surely reduce tariff revenues to a certain extent; and, for some time to come, tariff revenues will be less than they are now.

In terms of the current composition of China's fiscal revenues, tariff revenues remain an important item of fiscal revenues, and the tariffs remain partially fiscal in nature. Thus, the fact that tariff revenues which should have been increasing yearly will be reduced to different degrees for several years will certainly have a large impact on fiscal revenues in an overall sense.

On the other hand, the restoration of China's GATT membership will also require that China open up its domestic market to some extent, so the volume of import trade will surely grow faster than before. If the volume of export trade cannot also grow faster, generating a commensurate growth rate, this situation will doubtless affect China's balance of foreign exchange earnings and outlays. In order to balance foreign exchange earnings and outlays, the state must actively increase the export of goods, and would even be willing to export loss-making goods and goods which have a low capacity to earn foreign exchange. As a result, the state would have to provide financial subsidies, thereby increasing fiscal expenditures to some extent.

As China has experienced fiscal deficits for several consecutive years, a large reduction in revenues and some increase in expenditures will result in more difficulties that China must face in balancing fiscal revenues and expenditures. If effective measures are not taken, China will not only be unable to get rid of the current difficulties created by the huge fiscal deficits, but will also experience a worsening situation regarding the balance of fiscal revenues and expenditures, a situation which will result in greater fiscal difficulties.

(2) Challenges to the Work on Fiscal Reforms.

The restoration of China's GATT membership entails that economic development must be oriented toward the world market, and that enterprises and products must participate in international competition. As a result, all the sectors and industries will face very strong pressures. This also presents a challenge to the work on fiscal reforms, and demands that China carry out fiscal reforms so as to enhance enterprises' capabilities to compete on the world market. In short, the purpose is to promote the transformation of enterprises' operating mechanisms. Specifically, this involves problems at both the macro- and micro-levels.

In terms of the macro-level, in order to promote the transformation of enterprises' operating mechanisms, it is first necessary to meet the needs of the development of a socialist market economy, and to effectively perform the state's dual function. A socialist state has both political and economic functions. In order to achieve the transformation of enterprises' operating mechanisms, it is imperative to completely resolve the important problem of "enterprises being managed as if they were mini-societies." As enterprises are faced with competition on the market, especially the fierce competition on the world market, it is inevitable that some enterprises will face bankruptcies. Because of this, it is imperative to do a good job of resolving a series of social issues including social security. All this demands that the state perform its political function effectively, so as to provide a good social environment for enterprises with regard to their production and business activities. The economic function mainly lies in effectively exercising macroeconomic regulation and control. In accordance with the principle of "separation of the two powers"—that is, separating ownership rights from management authority—it is necessary to minimize unnecessary intervention in the running of enterprises so as to provide a good economic environment for enterprises with regard to their production and business activities. In view of all this, fiscal policies as an important means used by the state to perform its functions should become more geared to facilitating the performance of the state's political function and, to an appropriate degree, should be less geared to facilitating the performance of the state's economic function than they are now. At the same time, it is necessary to continue to balance fiscal revenues and expenditures to keep the aggregate social supply and demand in equilibrium to prevent the negative effects that inflation would exert on economic life,

thereby providing a stable macroeconomic environment for enterprises with regard to their production and business activities.

In terms of the microeconomic-level, in order to promote the transformation of enterprises' operating mechanisms, it is also imperative to meet the needs of the market economy, and to form an environment where equal competition among enterprises can be carried out, thereby giving full play to the role of competition mechanisms. This demands that fiscal allocations be based on the principle of fairness, most prominently embodied by fairness in taxation. Therefore, in developing the taxation system it is imperative to take full account of the need to promote equal competition among enterprises.

At the same time, the restoration of China's GATT membership requires that Chinese enterprises take a greater part in the competition on the world market; therefore, the role of taxation in regulating imports and exports will become even more important. In terms of regulating imports, taxation must be helpful to enterprises in their efforts to increase exports to generate foreign exchange earnings and enhance enterprises' capabilities to compete on the world market. In terms of regulating imports, taxation must help appropriately restrict imports and provide necessary protection of domestic enterprises and their products. Nevertheless, all this must be done within a certain limit. This demands that we give greater emphasis to the adjustment of the mix of imported goods.

II. Necessary Measures for Coping With the Restoration of China's GATT Membership

(1) Measures for balancing fiscal revenues and expenditures.

Because of the tariff concessions, China will face more difficulties in balancing fiscal revenues and expenditures. Meanwhile, in order to promote the transformation of enterprises' operating mechanisms and to increase enterprises' capabilities to compete internationally, it is necessary to balance fiscal revenues and expenditures so as to create a stable macroeconomic environment. In this regard, China must not only make energetic efforts to increase revenues, but must also strive to reduce expenditures, while paying attention to making overall arrangements on the use of financial resources.

There are many ways to increase revenues. First, increase the scope of application of the resource tax. Presently, in China the resource tax is only applicable to coal, crude oil, and natural gas. With the further rationalization of prices, China can make this tax applicable to metal mineral products and other non-metal mineral products which are now exempted from the tax on a temporarily basis. When conditions are ripe, it is also proper to make the tax applicable to water resources and biological resources such as fresh water and forests. Second, perfect the business tax system in order to increase revenues from the business tax. With the development of tertiary industry, China should further perfect the existing business tax system, and should make the tax

applicable to some emerging industries and appropriately adjust the tax rates, increasing the business tax rate applied to some highly profitable industries. Third, institute new taxes. For instance, in view of the actual development of the Chinese economy, it is proper to levy inheritance and gift taxes. In addition, as the securities markets, land transfer business, and real estate business develop in China, and as capital gains generated by securities exchanges, land transfers, and real estate business increase continuously, it is also proper to make the income tax applicable to those gains or institute a separate capital gains tax if conditions are ripe.

In terms of cutting expenditures, in order to meet the needs of the transformation of enterprises' operating mechanisms, it is imperative to streamline the bureaucracy in a determined manner, so as to cut administrative expenditures. This will be a main aspect of China's effort to cut expenditures. Of course, cutting expenditures is closely linked to economizing in spending. While cutting expenditures, it is imperative to fight wasteful spending resolutely.

To balance fiscal revenues and expenditures, China should pay attention to the issue of making overall arrangements on the use of financial resources. In our view, in China the extra-budgetary funds now under the control of the fiscal authorities should not be placed outside the state budget, but should, instead, be used according to the overall arrangement of the budget. At the same time, it is necessary to speed up the introduction of double-entry budgeting, and to make those currently extra-budgetary funds one item of the budgetary funds under double-entry budgeting. This method can not only alleviate the current shortage of budgetary funds, but also help increase the returns on extra-budgetary funds.

(2) Measures for promoting the transformation of enterprises' operating mechanisms and increasing their capabilities to compete internationally.

First, under the principle of "separation of the two powers," it is necessary to speed up the reform which will "separate taxes from profits." "Separating taxes from profits" is a fundamental reform of the distribution relationships between the state and enterprises in China. When the method of separating taxes from profits is implemented in state-owned enterprises, it would be naturally necessary to lower the income tax rate applied to state-owned enterprises, in order to apply a uniform income tax rate to all enterprises, thereby promoting equal competition among enterprises of various categories. Meanwhile, introduce the practice of making debt payments after paying taxes in order to stiffen the constraints on enterprise budgeting. Furthermore, the separation of taxes from profits can also put the profit-distribution relationships between the state and state-owned enterprises on the basis of after-tax contracting or

profit distribution. This demands that China enhance the management of state assets and rectify property right relations. All this will be helpful to transforming enterprises' operating mechanisms and to increasing enterprises' capabilities to compete internationally.

Second, it is necessary as soon as possible to establish a multitier fiscal management system based on the separate taxation system. The establishment of such a fiscal management system will facilitate the formation of a unified national market and the termination of the current market segregation in China. At the same time, with the establishment of the separate taxation system, the distribution relationships between the center and the localities and between the state and enterprises will come to be based on the rational use of economic levers such as taxation, profits (returns on equity), and subsidies. This will help improve the center's macro-level regulation of and control over the localities and the state's macro-level regulation of and control over enterprises, thereby promoting the transformation of enterprises' operating mechanisms and increasing enterprises' capabilities to compete internationally. Since the beginning of 1992, nine provinces, municipalities, and autonomous regions in China have carried out trial implementation of the separate taxation system. As the conditions are increasingly ripe, it is necessary to establish, in a definitive manner, a system of fiscal management based on this ideal model as soon as possible.

Third, it is necessary to meet the needs of the development of a system of socialist market economy and the needs of enterprises in their efforts to take part in international competition by further deepening the reform of the turnover tax. This involves two things: First, in view of the actual development of the Chinese economy, it is proper to change the product tax applied to stages of industrial production into a value-added tax. When conditions are ripe, change the product tax applied to all production stages and part of the business tax into a value-added tax, thereby creating a new situation where there is value-added tax, consumption tax (levied on top of the value-added tax in the case of some durable consumer goods), and business tax (applicable to the tertiary industry). As should be pointed out in particular, with the restoration of China's GATT membership, it is imperative to make Chinese enterprise more competitive internationally, and continuously increase exports. At the same time, impose appropriate restrictions on imports to provide some protection. However, only by levying the value-added tax across the board would it be possible to accurately give tax refunds in cases of exported goods, and to levy the maximum tax in cases of imported goods (by applying the value-added tax rate, which is higher, instead of the product tax rate) in order to effectively implement the policy of "giving rewards to those who export and limiting import." This also requires the establishment of a turnover tax system mainly based on a value-added tax. Secondly, since the turnover tax is now calculated on the basis of prices, taxation is thus closely linked to prices. But in China the

turnover tax is now a tax included in the price and has become a component of the price. In the past when prices of goods in China were mainly governed by the state's mandatory or guidance plans, taxation played an important role in—together with prices—regulating production and consumption. But, as the development of a socialist market economy is under way, prices of goods are mainly determined by the market. Correspondingly, the role of taxation in this respect will also weaken greatly; or, taxation will even have negative effects on market allocation because of imperfections in the taxation system. In addition, when the turnover tax is a tax included in the price, such a situation tends to create a false impression that the burden of the turnover tax is shouldered by enterprises, and enterprises, for their part, will try every means to secure tax breaks related to the turnover tax. All this is unhelpful to the transformation of enterprises' operating mechanisms. Therefore, in order to promote the transformation of enterprises' operating mechanisms, China should change the taxes included in the price into taxes added to the price as soon as possible.

Finally, it is imperative to establish and develop a social security system. In order to promote the transformation of enterprises' operating mechanisms, it is imperative to completely resolve the issue of "enterprises being managed as if they were mini-societies." And, the resolution of this issue is objectively necessary in order for equal competition to occur. In China, what is urgent now is to establish and further develop a system of social security encompassing unemployment insurance. It is proper to consider establishing such a system in cities first, and to have the system cover every member of society when experience has been accumulated and when conditions are ripe. This will be an important component of the fiscal work at a time when the development of a system of socialist market economy is under way. To achieve the above-mentioned objective, it is necessary to gather funds in a unified manner by instituting a social security tax, and—in connection with the introduction of double-entry budgeting—manage the revenues from the social security tax and funds used for social security payments in such a way as counting those funds as an item of the budgetary funds under double-entry budgeting, so as to ensure the effective operation of the social security system.

FOREIGN TRADE, INVESTMENT

Uruguay Round Implications for IPR Protection

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[Article by Tang Haiyan, associate professor in the Department of Economics of East China Normal University: "The Uruguay Round Negotiations on Intellectual Property Rights and the Protection of Intellectual Property Rights in China"]

[Text] I. The Uruguay Round Negotiations on Intellectual Property Rights, and an Evaluation

A. The definition and characteristics of intellectual property rights

Intellectual property rights are the exclusive rights of persons over the intellectual wealth they have created, through mental labor, in such areas as science, technology, arts and literature. Specifically, there are two major categories: One is industrial property rights, and the other is the right of authorship. Industrial property rights include such elements as patents, trademarks, utility models, design patents, service marks, trade names, indications of source or appellations of origin, and the repression of unfair competition, with patents and trademarks as the main elements. The right of authorship is also called a copyright, referring to the right of authors of works in the fields of natural and social sciences as well as literary, musical, dramatic, graphic, sculptural, and photographic works to control their scientific, literary, and artistic works and creations in accordance with the law. From a legal point of view, intellectual property rights have the following three characteristics: The first is exclusiveness. That is, without the authorization of the holder of the right, no one beside the holder of the right can enjoy or use the right, except when there are relevant provisions in the law. Otherwise, an infringement of intellectual property rights would take place, and the infringer must bear all legal responsibility for the infringement and pay damages to the holder of the right in compensation for his loss. In serious cases, criminal proceedings will also be instituted against the infringer. Usually, the exclusive rights of the holder can be altered only through such legal procedures as "mandatory authorization" and "requisition." The second characteristic is time limitation. There is always a time limit to the legal protection of the right of authorship, patents and trademarks. Beyond the time limit, those rights will automatically expire and the relevant properties will become the common properties of society which can be used by all freely, and the holders of the original rights will have no right to interfere. The third characteristic is the locality factor. The intellectual property rights acquired under the law of a country will be valid only inside that country and will only be protected by the law of that country. Except when there are relevant provisions in international treaties, the right will not get recognition and protection from other countries. Therefore, if, after acquiring intellectual property rights in a country, the holder of the right wishes to have the rights protected in other countries, he must apply to those other countries. His exclusive rights will be given legal protection only after the competent authorities of the countries concerned have granted approval. The citizens of countries which have not joined the international conventions or agreements on the protection of intellectual property rights can have their exclusive rights protected only within their own countries.

B. The Uruguay Round negotiations on intellectual property rights and the differences demonstrated in the negotiations

With the development of modern science and technology and their penetration into—and use in—international trade, intellectual property rights are becoming an important issue affecting international trade. Nevertheless, although the countries and the relevant international organizations have formulated a series of laws, conventions, or statutes on the protection of intellectual property rights, all of them have shown many defects in the process of actual application, demonstrating serious inappropriateness. More importantly, the laws, conventions or statutes discussed above have a basic bias in favor of protecting intellectual property rights, while failing to relate intellectual property rights to international trade, thereby providing no effective resolution of the issue of trade-related aspects of intellectual property rights. In view of such a situation, during the preparation for the Uruguay Round negotiations, some developed Western countries, especially the United States, insisted on making the issue of intellectual property rights a new item on the agenda of the new round of multilateral trade negotiations. The GATT ministerial meeting held in September 1986 accepted the U.S. proposal, and formally started preparations for the negotiations on specific issues. The Declaration of the Ministers adopted at the meeting clearly stated: "In order to diminish the distortion and obstruction of international trade, considering the need to promote the full and effective protection of intellectual property rights, and to ensure that the measures and procedures for the enforcement of intellectual property rights do not themselves constitute obstacles to legitimate trade, negotiations should aim at clarifying the provisions of the GATT and formulating new rules and laws in view of the circumstances." However, the proposals made by the developed countries in fact mostly deviated from the balance maintained in the mandate given by the Declarations of Ministers, putting too much emphasis on their own self-interest. For instance, the proposals of some countries would require that norms and standards on the protection of intellectual rights become part of the text of the GATT. Some countries' proposals would even have the GATT text explicitly include the protection norms and standards formulated outside the GATT context. The proposals from most developed countries demanded that the new norms and standards on protection be separated from the dispute-settlement mechanism. The developing countries raised firm objections to those proposals. They emphasized that those proposals had gone beyond the mandate given by the Declaration of the Ministers, and had focused attention on the maintenance of perpetual monopoly over creations and inventions, without taking into account society's need for technology, thereby upsetting the balance between rewarding the inventors and their creativity on the one hand and social needs on the other.

The common argument contained in the proposals put forward by the developed countries was: that inadequate, and sometimes excessively discriminatory, protection given to intellectual property rights had already

seriously affected international trade, and that, therefore, the GATT must fully resolve this problem as soon as possible. But the various countries still maintained some different views on some specific issues; the differences were concentrated on two issues:

The first concerned the issue of formulating uniform international standards on the protection of intellectual property rights. The Swiss proposal deemed it necessary to formulate a set of standardized rules to be included in the GATT text, arguing that the rules should be implemented under the GATT's supervision. The new rules would mainly lie in three principles: Parties shall (1) undertake to repress the distortion of international trade caused by the excessive as well as inadequate protection of intellectual property rights; (2) undertake to refrain from giving unfavorable discriminatory treatment to foreign products; and (3) protect intellectual property rights. Under the guidance of the general principles mentioned above, the specific details and typical cases of the trade distortion caused by the improper exercise of protection over intellectual property rights should be listed in a detailed manner. On the other hand, the United States and Japan proposed that an appendix containing uniform international standards on the protection of intellectual property rights be added to the GATT text, and that the existing laws, rules, and procedures of countries be made to conform with the uniform standards. Meanwhile, the European Community emphasized that a new multilateral agreement on the protection of intellectual property rights should be formulated as a separate document. They believed that the ultimate goal of the multilateral negotiations was not to harmonize the relevant laws of the countries, but to formulate a set of substantive uniform international standards on the protection of intellectual property rights. In short, the proposals of those above-mentioned countries were aimed at formulating a complete set of uniform international rules more specific than the provisions of the various relevant international conventions already in existence.

The second concerned the scope and term of protection. With regard to patents, the United States argued that protection should be granted to all inventions, innovations, new processes, and new products involving science and technology. Meanwhile, the European Community emphasized that patent protection should not be provided in the following two situations: first, when a certain patented invention or innovation should be detrimental to the "public order" and morality; and, second, when an invention should involve the biological process of mutation of animal and plant species and the related products. With regard to copyrights, the United States and Japan argued that the term of copyright protection of copyrighted works and computer software should be the duration of the life of the author plus fifty years. Meanwhile, the EC argued that the term of protection of software programs should be no less than twenty-five years, and that the protection should not be necessarily in the form of copyright protection.

Although the proposals of the developed countries had differences, they had one thing in common: that is, they all disregarded the close relationship between intellectual property rights and the development of science and technology, while considering the issue of protection of intellectual property rights solely from the standpoint of trade. In fact, in formulating strategies for developing science and technology, countries would mainly consider the protection of intellectual property rights to be a means used for promoting scientific and technological development and the improvement of the well-being of the people. The balancing of the two mutually dependent aspects of the interests of society would be handled differently by different countries because of their different circumstances. Such differences were very important as countries were in different stages of economic development. But, none of the proposals of the developed countries touched upon this issue.

On the other hand, while the exports of developed countries would involve intellectual property rights to a great extent, the exports of developing countries would involve intellectual property rights to a relatively small extent. Meanwhile, under a powerful and more extensive system of protection of intellectual property rights, the relevant laws of the two sides would have to be harmonized. This could lead to the following problems: First, developing countries would in fact lose their right to formulate the relevant laws on intellectual property rights in accordance with the particular circumstances of their respective countries; second, developing countries would assume a heavy financial burden because of the implementation of the new, enhanced protective measures; third, developing countries would lose many opportunities to acquire technologies to develop their own economies because of the strong protection given to advanced science and high technology; and, fourth, developing countries would be forced to implement the new rules because of their desire to secure the preferential treatment granted to developing countries according to the GATT.

In view of those situations, in the negotiations the developing countries—in order to safeguard their own interests—emphasized that it was necessary not to seek, one-sidedly, protection for intellectual property rights for their own sake, but to be more focused on the actual exercise of intellectual property rights and the balancing of interests. And they put forward relevant proposals: (1) Remedial measures should be taken in cases of inadequate publicizing and diffusion of technological inventions; (2) measures on mandatory use should be formulated to handle cases of non-use or inadequate use of foreign-patented devices in the country or area of patent issuance; (3) developing countries should be allowed to produce and export goods involving foreign-patented devices registered in the developing countries concerned; (4) developing countries should be allowed not to grant property-right protection to biological technologies and products; (5) the abuse of property-right protection should be suppressed with regard to the issuance of

patent licenses; (6) computer software should only be provided with limited copyright protection; and (7) energetic efforts should be made to promote technological transfers to developing countries, and various relevant preferential measures should be adopted to ensure the satisfaction of the minimum needs of the development of developing countries.

The debate between developed countries and developing countries on the issues discussed above continued until the follow-up meeting on the mid-term evaluation in April 1989. The meeting declared that the negotiations on the issues involved would enter a new stage. After consultation, the ministers agreed that the negotiations on intellectual property rights in the next stage should focus on the following issues:

1. The issue of compatibility of the GATT with the relevant international agreements or conventions on the protection of intellectual property rights;
2. Formulation of comprehensive rules and standards on the protection of intellectual property rights;
3. Formulation of appropriate and effective measures to enforce the protection of intellectual property rights, while taking into account the differences between the national legal systems of the countries;
4. Formulation of procedures for the expeditious and effective prevention and settlement of disputes between governments;
5. Evaluation of the implementation of negotiation results on the part of the developing countries concerned so as to facilitate their full participation in the negotiations on issues of transitional arrangements.

C. The main contents of the Uruguay Round agreement on intellectual property rights and a general evaluation

Through repeated consultations, the Uruguay Round intellectual property right negotiation group—after delivering the Draft Code on Intellectual Property Rights in December 1990—proposed the Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods in December 1991. Although the countries have not yet come to a common view on the agreement, it seems that the basic contents are unlikely to be greatly altered. The agreement contains seven parts: Part I: General Rules and Basic Principles; Part II: Standards on the Validity, Scope and Exercise of Intellectual Property Rights; Part III: The Enforcement of Intellectual Property Rights; Part IV: The Acquisition and Maintenance of Intellectual Property Rights and the Related Procedures; Part V: Dispute Prevention and Settlement; Part VI: Procedures for Transfer; and Part VII: Customary Practices and Final Articles. Part II is the most important, and involves mainly the following issues: (1) copyright and related rights; (2) trademarks; (3) geographical symbols; (4) industrial designs; (5) patents; (6) integrated-circuit designs; (7) the protection of undisclosed information;

and (8) provisions on control over anti-competitive behavior in contracts and licenses.

On the whole, the agreement emphasizes the role of the protection of intellectual property rights in promoting the development of international trade, and has further expanded the scope of protection of intellectual property rights on the basis of the basic principles of the GATT and the international conventions on the protection of intellectual property rights, while taking into account, in a rather realistic manner, the particular circumstances of developing countries and the need for necessary differential treatments, thereby harmonizing the interests and demands of both developed countries and developing countries. Overall, the agreement has the following several characteristics:

First, it gives full emphasis to the great significance of enhancement of the international protection of intellectual property rights to the steady and healthy development of international trade, and has further clarified the goal of protection of intellectual property rights and strengthened the protection of intellectual property rights on the basis of the general principles of the GATT and the relevant international conventions.

With regard to the goal of international legal protection of intellectual property rights, the agreement provides that the protection and enforcement of intellectual property rights shall contribute to promoting technological innovations as well as technological diffusion and transfer and be conducive to the economic well-being of society, thereby benefiting both the inventors and users of technologies and facilitating the balancing of rights with duties. The agreement also provides that the protection and enforcement of intellectual property rights shall lead to less unfair treatment in, and obstacles to, international trade, and that it shall be ensured that such protection and enforcement itself does not constitute any obstacle to legitimate trade. The agreement also lists in detail several specific objectives relating the protection of intellectual property rights and specific objectives concerning the standards and principles on the validity, scope, and exercise of intellectual property rights.

With regard to the relationship between the protection of intellectual property rights and the basic principles of the GATT and the relevant international conventions, the agreement reaffirms the two GATT-affirmed principles of most-favored-nation treatment and national treatment—which have been accepted by the relevant international conventions—to be the principles to be followed in protecting intellectual property rights, and emphasizes the need for compatibility with the principles contained in the relevant international conventions, so that the agreement can dovetail with the relevant international conventions such as the Paris Convention, the Bern Convention, and the Rome Convention.

The agreement has enhanced measures used for the protection of intellectual property rights in the following ways: (1) The agreement provides that parties shall

protect computer programs, whether in source or object code, as literary works under the Bern Convention (1971), and that the term of protection of computer programs shall be no less than fifty years computed from the end of the calendar year of making. (2) The agreement has expanded the legal protection of sound recordings and performances, providing that the term of effective protection of performers and producers of sound recordings shall be no less than fifty years. (3) The agreement has strengthened the protection of trademarks, containing specific rules on the objectives to be achieved through the protection, on the right to give authorization, and on requirements on the use of trademarks. (4) The agreement has strengthened the protection of industrial designs, providing that the term of effective protection shall be no less than ten years. (5) The agreement has expanded the scope of application of patent protection, stipulating strict restrictions on enforcement of the right of mandatory patent licensing. (6) The agreement provides that parties shall provide natural and legal persons with legal means in national laws, so that those persons can prevent the information of commercial value under their control from being disclosed without their consent. (7) The agreement provides that the enforcement procedures for intellectual property rights shall be fair and reasonable, and shall not be unnecessarily cumbersome, time-consuming, or constrained by unreasonable time limitation or delays without assurances. (8) The agreement provides that the judicial authorities shall have the right to adopt timely and effective temporary measures to deter any infringement of intellectual property rights. And (9) the agreement provides that there shall be adequate criminal sanctions including imprisonment and fines to deter intentional trademark counterfeiting and copyright-infringing piracy on a commercial scale, etc.

Second, the agreement gives emphasis to the mechanisms of legal sanctions and other measures, strengthening the mandatory and constraining nature of the law, thereby providing legal foundations and basis for the relevant multilateral mechanism of dispute settlement. Specifically: (1) the agreement has strengthened the deterrence and sanctions against trading in counterfeit and pirate goods; (2) the agreement emphasizes controlling anti-competitive conduct and trade distortion; (3) the agreement contains specific provisions on the issue of transparency, on the disposal of infringement-involved goods, and on border-management measures related to counterfeit or pirate goods; (4) the agreement has further strengthened and expanded the procedures for consultation and dispute settlement, providing that Articles 22 and 23 of the GATT and the agreement on the rules and procedures on dispute settlement contained in those two articles shall be applicable to the consultation on, and settlement of, disputes under this agreement; and (5) the agreement also contains provisions on the duties and responsibilities of the intellectual property right organizations relevant to this agreement and the arrangements concerning their mutual cooperation aimed at monitoring implementation of this agreement

and at providing opportunities to conduct consultations on issues of trade-related aspects of intellectual property rights, etc.

Third, on the basis of considerations of the actual circumstances of developing countries and their difficulties in implementing the agreement, it is provided that the providing of relevant assistance by developed countries to developing countries shall be an international duty, and that a certain grace period shall be granted to developing countries in terms of the implementation of the agreement.

The agreement provides that the developed countries shall have the following duties: The developed country parties shall provide the developing country and least-developed country parties with technical and financial cooperation. Such cooperation shall include assistance in drafting legislation on the protection and enforcement—as well as the deterrence against abuse—of intellectual property rights, and also assistance in establishing and strengthening national institutions and agencies dealing with the relevant issues, including training government officials.

The agreement provides for specific transitional arrangements concerning the implementation by developing countries of this agreement: 1. In accordance with the provisions in paragraphs 2, 3, and 4 listed below, parties are not under mandatory obligation to apply the provisions of the agreement until one year after the agreement comes into effect. 2. Except for Article 3: National Treatment, Article 4: Most-Favored-Nation Treatment, and Article 5: Multilateral Agreement on the Acquisition and Maintenance of Protection in Part I, any developing country shall have the right to postpone the application of the provisions of the agreement for another four years. 3. Any other party may postpone the application of the agreement in accordance with paragraph 2 listed above if it is in a process of transition from a centrally-planned economy to a market economy, is undertaking structural reforms in relation to intellectual property rights, and is encountering special difficulties in the process of drafting and enforcing laws on the protection of intellectual property rights. 4. If a developing country party is obligated under the agreement to extend the protection of patented products to the area of technology, while the technology area concerned is not protected by that party at the time when the agreement comes into effect and becomes applicable to that party under paragraph 2 listed above, then that party may postpone the application of the "patent" provisions of Article 5, Part II, of the agreement to that technology area for another five years. 5. All the parties to which the transition period provided in paragraphs 1, 2, 3, and 4 is applicable shall make sure that during the transition period their national laws, rules, and practices are made to conform with the agreement.

II. The Protection of Intellectual Property Rights in China and China's Policies on Adapting to the Norms of the GATT

A. The current state of affairs in the area of protection of intellectual property rights in China

Since the start of the reform and opening to the outside world, China has achieved great successes in establishing and perfecting the legal system governing its external economic relations and trade, and has made substantial progress in the area of protection of intellectual property rights. At present, China has formed, in a preliminary manner, a whole set of schemes and measures concerning the protection of intellectual property rights:

1. Providing effective protection of intellectual property rights through national legislation

Since the start of the reform, a number of laws on protecting intellectual property rights have been promulgated on separate occasions; the major ones are: the Trademark Law of the People's Republic of China (1982), the Patent Law of the People's Republic of China (1984), the Regulations on Technology Introduction Contracts (1985), the Right of Authorship Law of the People's Republic of China (1990), the Provisions for the Protection of Computer Software, etc. All the above-mentioned laws and regulations contain explicit provisions mandating punitive measures against infringement of intellectual property rights. These measures are in three main categories: first, administrative protection, that is, the provision of protection of intellectual property rights by the competent administrative authorities through adopting, in accordance with administrative and legal procedures, such measures as decreeing the cessation of infringement, elimination of the effects, and payment of damages; second, civil protection, that is, the provision of protection of intellectual property rights by the people's courts through adopting, in accordance with civil procedures, such measures as ordering the cessation of infringement, elimination of the effects, payment of damages, punishment of the tort-feasor, and restoration of the infringed rights, according to the law; third, criminal protection, that is, the provision of protection of intellectual property rights by the people's courts through adopting, in accordance with criminal procedures, such measures as imposing fines and jail sentences on the criminals responsible for infringement of intellectual property rights.

2. Providing protection of intellectual property rights by acceding to the relevant international conventions and signing the relevant bilateral agreements

While enhancing national legislation, China has also actively participated in the activities of the relevant international organizations, formally joining the World Intellectual Property Organization and acceding to the Paris Convention for the Protection of Industrial Property and the Madrid Agreement on International Registration of Trademarks, in an effort to harmonize the protection given by China to intellectual property rights and the international protection of intellectual

property rights, so as to gradually make national measures conform with international standards.

At the same time, China has also signed bilateral agreements to provide reciprocal protection to the intellectual property rights of the nationals of a foreign country. For instance, the Sino-American Trade Agreement (1979) contains provisions for the reciprocal protection of each other's intellectual property rights, and the Sino-American Memorandum of Understanding on Intellectual Property Rights (1992) is a bilateral agreement specifically designed to provide protection for intellectual property rights.

3. Providing protection for intellectual property rights in trade contracts

Currently, China protects—through the inclusion of relevant clauses in contracts—medical products and chemically obtained substances (not including chemical compounds, metal alloys, catalysts, and coating materials) and the proprietary technologies which are not protected according to the explicit provisions of China's patent law. After assuming the obligation, in contracts, to keep secrets, the authorized users must unfailingly perform this obligation. And it is necessary to hold those disclosing the secrets legally responsible, and order them to pay damages.

B. Analysis of ways to make the protection of intellectual property rights in China conform with the norms of the GATT

China will face two situations in enforcing the international norms on the protection of intellectual property rights: First, China is a developing country and must take into account the need to appropriately protect its own national industry, while protecting foreigners' intellectual property rights in the process of introducing advanced foreign technologies. That is, in China the degree of protection given to intellectual property rights must be appropriate to the level of development of the Chinese economy. On the other hand, China has produced inventions and innovations on its own in many areas of advanced science and technology such as the production and launching of satellites and the development of computer software, biotechnology, and high-energy physics, and has its strengths in traditional science, culture, and arts such as Chinese medicine. Therefore, China will gain a certain amount of benefits by acceding to the international rules on the protection of intellectual property rights. Under such circumstances, how to make the protection of intellectual property rights in China conform with the norms of the GATT becomes an issue greatly in need of study.

First, conditionally accede to the agreement reached at the Uruguay Round negotiations on intellectual property rights

In view of the present circumstances, as the issue of trade-related aspects of intellectual property rights

directly affects the smooth development of international trade, strengthening the protection of intellectual property rights has become an irresistible trend. The GATT has clearly indicated that the problem of protection of intellectual property rights should be resolved in the Uruguay Round. This position has received complete support from most countries, especially the developed countries. The concluding of an agreement on the protection of intellectual property rights is only a matter of time. China is in possession of many innovations and inventions achieved in scientific and technological development and research activities in many areas, and will produce ever more inventions and innovations in the future. Thus, strengthening the protection of intellectual property rights is beneficial to China, too. From the preceding analysis, it can be seen that China should sign the agreement on the protection of intellectual property rights at the conclusion of the Uruguay Round negotiations.

However, it should be emphasized that China's signing of the document discussed above must be conditional: that is, China, as a true developing country, is entitled to the preferential treatment that should be granted to developing countries in relation to the protection of intellectual property rights. More importantly, it is necessary to increase the scope and degree of the preferential treatment granted to developing countries. At present, two things are most important. First, it is necessary to strive to make the grace period longer with regard to the time element of the transitional arrangements, so that China will have sufficient time to gradually close the gap between its national laws and measures and the rules of the GATT. Second, with regard to the content of the preferential treatment, it is necessary to strive to gain favorable differential treatment in the areas of technological transfers, mandatory licensing, and parallel import, so as to promote the development of the domestic economy and export trade.

Second, further perfect national legislation on the protection of intellectual property rights

On perfecting the trademark law. The Trademark Law promulgated in 1982 has to be revised and augmented in many ways in regard to both the scope of protection and sanctions. It is necessary to enlarge the scope of protection, and such things as service marks, collective marks, and certificatory marks should all be given protection; at the same time, it is necessary to add clauses on the protection of famous trademarks and clauses on how to get international registration of trademarks, so as to conform to the relevant international conventions. With regard to sanctions, it is necessary to enhance the legal sanctions against trademark counterfeiting, providing specific sanctions, so as to ensure the enforcement of the law.

On perfecting the law on the right of authorship. It has been just one or two years since the Law on the Right of Authorship and the Provisions for the Protection of Computer Software were promulgated. Nevertheless, in

view of the relevant international conventions and the relevant GATT agreement, it is still necessary to carry out revisions in the following ways: (1) Formulate uniform standards, closing the gap between the national legislation and the international conventions with regard to the standards of protection, under the guidance of the Bern Convention and other international practices; (2) provide explicitly that the owners of copyrights to sound recordings and other works shall have the exclusive rights; and (3) it is necessary to protect computer programs as a kind of literary work under the Bern Convention, and to abolish all mandatory procedures, while extending the term of protection for software to fifty years.

Third, continue to solve the specific problems relating to the protection of intellectual property rights through reaching a series of bilateral agreements

The protection of intellectual property rights involves many areas, and is highly technical and difficult to carry out. Many special problems can be resolved fairly only through consultations on specific issues. Practice has shown that particular problems between two countries can be resolved through reaching bilateral agreements. Furthermore, bilateral agreements can also play a buffer role and transition-facilitating role by contributing to making national legislation conform with international standards. Therefore, in the future, China should continue to use the method of reaching bilateral agreements to resolve the specific problems relating to the protection of intellectual property rights.

Fourth, formulate uniform national laws to combat and deter improper competition, so that economic activities can be carried out in accordance with the law under a situation in which there are laws to abide by, while law-breakers will be punished, thereby improving the external conditions for economic development and creating a good social and legal environment.

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Economic Reforms Compared With India

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[Article by Hua Biyun (5478 4310 7189): "A Comparison of Economic Reforms in China and India"]

[Text] Both China and India are developing nations with a large population and weak base; their starting points of economic construction are similar. China implemented its economic reform policy two years before India's "small step reform," but the Rao government's drastic reforms in the past year have been very impressive. Here, we are prepared to compare the two nations with respect to their agricultural reforms, efforts to open up to

the outside world, state-owned enterprise reforms, and their domestic political environments.

I. Agricultural Reform

In the early 1950's, China and India were at comparable levels of agricultural development; agriculture played similar roles in their national economies, and the rural populations accounted for more than 80 percent of their respective total population. The difference was that India's per capita arable land was three times China's. Between 1950 and 1979, China's GVAO [Gross Value of Agricultural Output] grew 2.26-fold, compared to India's 1.32-fold. China's advantage laid in its quick effort to change its feudal productive relations and diversify its economy by developing the forestry, livestock, and sideline production sectors.

China's economic reform which began in the rural areas recognized the country's real situation and gave expression to the strategy of making agriculture its economic base. China has changed its system of state monopoly of purchases and marketing by implementing the family-based output-related contract responsibility system. It has repeatedly raised the price of agricultural and sideline products and decontrolled most agricultural products to promote the development of the rural market economy, and the remarkable result is that it is now supporting 22 percent of the world's population with only 7 percent of the world's arable land. At the same time, by developing township enterprises and the tertiary industry, it has solved its rural unemployment problem and has unleashed its rural productive forces for a second time. Today, the living standard in China is rising and moving from the subsistence level to the comfortable level.

India's agricultural reform has been hampered by factional strife and lacked a sense of continuity. The Congress Party implemented economic reform in 1980, but it did not target the rural areas. The Sixth Five-Year Plan advocated making agriculture the base, and the agricultural development strategy continued to promote the green revolution. But that strategy only suited areas with better irrigation conditions and did not help 70 percent of the arid land. It made little progress toward balancing crop production and regional development. Bureaucrats and rich farmers pocketed 50-80 percent of the poverty-relief funds, and landless and small farmers that accounted for three-quarters of the rural population remained less than enthusiastic about the reform. In an attempt to defeat the Congress Party in the 1989 election, the BJP [Bharatiya Janata Party] promised the farmers that if elected, it would forgive all debts under 10,000 rupees owed by the farmers. This further encouraged the farmers to default on their bank loans. By the time the BJP coalition government stepped down, it had forgiven 100 billion rupees (\$5 billion) in loans and had raised the procurement prices of various agricultural products and increased government subsidies on fertilizers and so on. The government's excessive efforts that disregarded its own financial strength caused the deficit

to soar and seriously jeopardized the rural credit system, resulting in the recovery of only 55 percent of the loans and creating an inversed-interest phenomenon where the interest on deposits was higher than the loan rate (at 13 percent and 11.5 percent respectively). In 1990-1991, agricultural credit fell by 16 percent.

The Rao government has only made some corrections from the financial point of view and has not introduced any major reform measure. Due to opposition from the rich farmers, the policy of raising agricultural tax was never implemented. Today, agricultural tax only accounts for 2 percent of the nation's tax revenues. In the long run, this will diminish the nation's agricultural investments. The Rao government has discontinued the policy of canceling debts and has reduced fertilizer subsidies by 30 percent. Two other reform measures have been implemented in the name of the poor, but they have not shaken the rich farmers' control. One of the measures is to increase the supply of parity-price grain to the cities to include 1,700 poor districts in the rural areas. Another is to set up agricultural-industrial-commercial groups comprised of farmers, banks, and poverty-relief organizations to run 14 pilot projects in various states to promote all-out development in agriculture, forestry, livestock, sideline production, and fishery and to increase employment opportunities.

The agricultural development-gap between China and India widened in the mid 1980's. From 1980 to 1990, China's agricultural sector grew 84.6 percent, averaging 6.3 percent a year based on constant prices, compared to India's 34 percent, averaging 2.6 percent a year. In 1991, China produced 435 million tons of grain, averaging 368 kilos per capita, compared to India's 171 tons, averaging 200 kilos per capita. India has set the grain production target at 240 million tons by the end of this century, and with a total population of 1 billion, it will average 240 kilos per capita, which will still be below China's current level. With respect to poverty relief, China has had outstanding success. In 1978, China had 270 million poor people which made up one-third of the population. In 1990, that number was reduced to 85 million, accounting for 7.3 percent of the population. Over the same period, India managed to reduce its impoverished population from 40 percent to 30 percent, which means 238 million people are still living below subsistence, and among them 82.4 percent are living in the rural areas. In 1991, total savings in China's rural areas topped 422.3 billion yuan, accounting for 40 percent of the nation's savings. The increase in rural savings effectively supported the comprehensive rural economic development in China and increase rural purchasing power. This is in sharp contrast to India's tight rural credit situation.

II. Opening Up to the Outside World

Prior to 1978, the international environment had been more favorable to India than China with respect to foreign capital utilization, and India had been utilizing foreign capital while China had not attracted foreign investments for some time. But in the 14 years since

China opened up, its foreign capital utilization has surpassed the sum total of India's in the previous 40 years.

Prior to China's opening up to the outside world, there had been few Western European and Japanese loans. During the same period, India had obtained foreign aid from various sources totaling \$30 billion and had absorbed more than \$3 billion in private foreign loans. They played a positive role in India's economic development and in raising its scientific and technological standards.

China began opening up in 1978 and formulated the guiding principle of utilizing the international and domestic markets, international and domestic resources, and on the basis of equality and mutual benefits, it began expanding its foreign economic relations in all directions, in all forms, and at all levels, attaching equal importance to the utilization of foreign loans and absorption of private foreign investments. Comrade Deng Xiaoping's 1992 South China speech further accelerated the pace of reform and opening up, creating a new pattern of completely opening up the country at four levels—along the coast, along the borders, along the rivers, and in the interior provinces. Between 1979 and 1991, the government approved \$121.47 billion's worth of foreign capital utilization agreements, with actual foreign capital utilization topping \$79.65 billion—\$52.742 billion in foreign loans and \$23.347 billion in direct foreign investments, at a loan payment rate of 8.5 percent. At the end of 1991, China had a foreign exchange reserve of \$42.665 billion, giving it ample foreign debt payment capacity. Foreign trade volume grew from \$38 billion in 1978 to \$136 billion in 1991. In 1980, China exported twice as much as India; in 1991, it exported 3.9 times as much.

In the 1980's, India made several mistakes in its foreign capital utilization. It put large amounts of high-interest, short-term commercial loans and IMF funds to use while tightening direct foreign investments. Its actual use of foreign capital over the 10-year period came to \$50 billion while private foreign investments were limited to \$1 billion. This foreign capital structure could only lead to ruinous debts. By March 1992, India's foreign debts have reached \$73.5 billion, trailing only Brazil and Mexico to become the third largest debtor among the developing nations. Its principal and interest payments take up 36 percent of its exports. In the next four years, its annual interest and principal payments will reach \$8.5 billion to \$9.8 billion. Furthermore, because of the lack of matching funds at home, \$20 billion in foreign aid—\$6.6 billion from World Bank, \$4.5 billion from the International Development Association, and \$9 billion in bilateral aid—have not been put to use. World Bank has issued three letters warning that if India failed to act, it would reduce its bilateral and multilateral aid to India and would rescind its \$1.5 billion unused loans to India. For this reason, India's minister of finance attended the International Development Association's 10th session on increasing funding to convince the financial ministers of seven Western nations not to reduce India's aid quota.

Three years ago, China and India each received 15 percent of the International Development Association's available loans.

Rao's government is learning from the experiences of China, Asia's "four small dragons," and ASEAN and is encouraging private foreign investments. India's new policy states that it will (1) expand the scope of foreign investments and open up the heavy industry and basic industry; (2) raise the stock participation rate, increasing foreign investors' stock participation from 40 to 51 percent in 34 of the nation's advanced sectors, and allow foreign investors to own outright enterprises that export all of their products as well as coal, power, computer, and other high-tech enterprises; (3) increase foreign investors' management rights, including the right to use their own trademarks, designate their own agents and consultants, purchase and transfer land and other assets, and set up branches and subsidiaries; (4) open up the stock and securities markets, allowing foreign institutional investors and overseas Indians to purchase a maximum of 24 percent of the stocks issued by Indian enterprises; (5) set up special bureaus to invite large transnational corporations to invest in India; (6) forge foreign economic relations—diplomatic missions broad are instructed to make increasing foreign trade and absorbing foreign investments a regular task, and national leaders and high-ranking officials make frequent visits abroad to personally solicit foreign investors. In terms of concept, it has also made great breakthroughs. India and Israel resumed diplomatic relations soon after China and Israel established theirs, and India has also authorized 11 foreign consulates to issue visas to Taiwanese investors as a way to attract Taiwanese investments. The Taiwanese Trade Delegation and India's Industry and Trade Federation have visited each other. **Indian-Taiwanese trade has exceeded Indian-Chinese trade.** In 1991, trade between India and Taiwan totaled \$443 million, compared to \$260 million between India and China.

Due to the improved investment climate, foreign investors are less reluctant and more eager to invest now. In the 18 months since Rao took office, \$2.3 billion's worth of foreign investment contracts have been signed, with actual investment topping \$500 million. India's minister of finance has estimated that India can expect to attract \$1-2 billion in direct foreign investment and \$2 billion in securities investments each year for the next three years.

Since the 1980's, India has absorbed only about one-tenth the direct foreign investments absorbed by China. This is mainly because (1) conditions there have not been as favorable as those in China. India's corporate income tax is as high as 50-65 percent; there are restrictions on shareholding, and its infrastructure is in poor condition. (2) India has not actively absorbed overseas Indian investments. There are 12 million overseas Indians and Indian descendants who control in excess of \$100 billion in overseas capital. Just 1 percent of that invested in India would bring \$1 billion. Overseas Chinese capital makes up a significant part of the foreign

investments absorbed by China. (3) It has over-emphasized investments by large transnational corporations which will only work with large financial groups; medium-sized and small enterprises have little chance of attracting foreign investment to bring about technological changes. China has 37,000 three kinds of wholly and partially foreign-owned enterprises. There are numerous medium-sized and small joint ventures, and they help promote exports. (4) India has strong labor unions; enterprises cannot freely dismiss their workers. (5) India has a public safety problem—kidnapping of entrepreneurs are frequent occurrences in some northeastern states; foreign investors generally do not feel safe.

III. Reform of State-Owned Enterprises

Improving the state-owned enterprises' efficiency is the core and also the stumbling block of China's as well as India's efforts to deepen the restructuring of their economic systems. China's reform still insists on making the public ownership system the primary system while India ultimately wants to privatize all but a handful of strategic enterprises.

China's state-owned enterprises account for a larger percentage of the nation's GNP than India's—58 percent in 1978, dropping to 40 percent in 1990. One-third of the state-owned enterprises are losing money. India has a mixed economic system. The state-owned economy holds the "commanding ground" in the national economy. It accounts for 40 percent of the domestic capital formation but only 26 percent of the net domestic product. Nearly half of the 248 enterprises directly controlled by the central government are losing money. India's private economy is enormous, but because some product prices are controlled by the government, the market is underdeveloped. Thirty percent of the goods that make up the price index are under price control.

Since 1984, China has taken numerous steps to change the state-owned enterprises' internal mechanisms. For example, it has implemented the shareholding system, leasing, contracted management responsibility system, the system of personal responsibility, the system of linking wages to labor productivity, labor contract, and the method of selecting enterprise leaders through the open bid system. These reform measures have definite effects on enlivening enterprises. Currently China is implementing the "Provision on the Changing of Management Mechanisms in Industrial Enterprises Under the Ownership by the Whole People System" to make sure that enterprises truly have management rights, including personnel rights, the right to distribute wages and bonuses, the right to set product prices, the right to make investment decisions, and the right to manage their own imports and exports, so that enterprises can truly make management decisions and take responsibility for their profits and losses and large enterprises can compete internationally. Enterprises that have no hope of becoming profitable may make use of the bankruptcy law, close, stop production, merge, convert to another line of production, or be auctioned off. Surplus workers

are encouraged to turn to the tertiary industry. At the same time, by diverting resources to the non-state-owned economy, it has exerted external pressure to make the state-owned enterprises more competitive. Between 1978 and 1990, the collective economy's share of the GNP has increased from 12 percent to 50 percent; individual, Sino-foreign joint ventures, and wholly foreign-owned enterprises and other entities have increased from 2 percent to 10 percent. The problem is that because of the imperfect social security system, failure to resettle the laid-off workers properly may become a potential destabilizing factor in society.

India's reform of state-owned enterprises focuses on combining reform with the establishment of a social security system. Besides continuing to implement the "memorandum" system which is similar to the contract system, India is also implementing the shareholding system and is proceeding with privatization. At the same time, the state has set up a 2-billion-rupee resettlement fund to be used to retrain the laid-off workers and to give other workers on-the-job technical training. Enterprises too have set up similar funds. World Bank has provided a \$5-billion loan to the resettlement fund and a \$4-billion loan to the social security fund.

India's directly-state-owned enterprises can be divided into three groups; each has adopted its own method:

The first group is made up of profitable enterprises. There are 31 such enterprises, and 49 percent of their shares have been transferred within a three-year period. Enterprises have raised their own risk funds, and the government has pulled out its investments. In the first year, 30 billion rupees were used to reduce the deficits. In the second year, out of 35 billion rupees, 25 billion were used to reduce the deficits while 10 billion were used to replenish the resettlement fund. In the third year, 25 billion rupees were used entirely to replenish the resettlement fund. In practice, the monetary targets were attained, but the goal of introducing the competitive mechanisms has not yet been achieved. In the first year, 17 enterprises sold 8 percent of their stocks. All were purchased by unit trust funds and other financial institutions. In October 1992, stocks of the first group of eight enterprises were put on the market; 95 percent of the shares were purchased by institutions; private companies and individuals acquired only 5 percent. Public opinion suggests that institutional investors' purchases should be limited to 40 percent and information should be given to private companies and individuals more promptly.

The second group is made up of the marginally profitable enterprises. There are 76 of them. The goal is to invigorate them and turn them into legal entities that can take care of their own profits and losses, so that the state can eventually recover its investments. There are three enterprises in the first pilot group which includes Hindustan Machine Tool Company. The state has invested 15 billion rupees in structural adjustments and technological upgrading.

The money is used to pay off old debts, replace government loans with shares, and to promote the voluntary retirement program. Hindustan Machine Tool Company intends to set up joint ventures with foreign investors to run a clock and watch factory and a machinery factory.

The third group is made up of money-losing enterprises. There are 126 such enterprises. Fifty-eight of the worst money-losing enterprises have been turned over to the Industry and Finance Rebuilding Bureau to determine whether they should be shut down, suspended, merged, converted, or auctioned off to recover the fixed assets. According to a World Bank study, 82 Indian enterprises must lay off 450,000 employees and would require 51.62 billion rupees for restructuring. National Textile Company is one of the pilot companies. It is made up of 125 nationalized sick private textile mills. It was created at first so that the workers would not have to face unemployment if the mills should close, and it has lost a total of 2.116 billion rupees. Of its 17,500 workers, 79,000 are surplus workers. The company has formulated a three-year modernization and resettlement plan. The original nine branches will be cut down to five or seven; 35 factories will be closed; nearly 80,000 people will be laid off, at a total expenditure of 14.71 billion rupees. The plan met cabinet approval on 10 September last year. Specifically, the company will allocate 14.71 billion rupees out of its own voluntary retirement fund and 2 billion rupees out of the resettlement fund provided by World Bank and will give each unemployed worker 80,000-100,000 rupees. It will issue each person an electric weaving machine and help the displaced workers set up a production cooperative. It will spend 500 million rupees to give the remaining workers technical training. The government will gradually reduce its subsidies to the company. It is too soon to determine if the plan is successful. Because of the labor unions' opposition to the layoffs, to date only 10,000 have applied for voluntary retirement.

It is also clear that India is allocating its resources more toward the private sector. Under the Eighth Five-Year Plan, the private sector accounts for 57 percent of the total investment, compared to the public sector's 43 percent. The new industrial policy has abolished the production license system and allows private enterprises to invest in heavy industry and basic industry. The government has decontrolled steel, cement, and sugar prices and has eased import-export restrictions. Recently it has also eased investment restrictions abroad: Investments under \$2 million—\$1.5 million in machinery and equipment and \$500,000 in cash—are automatically approved within one month. Previously no cash investments abroad were permitted. These measures facilitate the development of private enterprises and transnational operations. A survey of 1,000 large- and medium-sized private companies showed that during the 1991-1992 fiscal year, sales rose 21.3 percent, gross profit rose 27.4 percent, and net profit increased 24.2 percent. During the year, the stock market was very active, and despite the serious scandal that caused the market to plunge,

stock prices of the large financial groups continued to look up. This will also exert pressure on state-own enterprise reform.

IV. Domestic Political Environment

China's economic reform and opening up are moving ahead in a political environment of peace and unity. Under the theoretical guidance of Comrade Deng Xiaoping's idea of formulating a socialism with Chinese characteristics, the Chinese Communist Party and the Chinese people have worked together with one heart and one mind to move in harmony toward the goal of becoming fairly well-off and striving to quadruple the 1980 GNP by the end of the century. After Comrade Deng Xiaoping's South China speech, ideologically, the people have taken another great stride forward, and this has accelerated the pace of reform and opening up, creating a fine situation where political stability and economic prosperity are giving impetus to each other and manifesting the tremendous life force of the socialist system with Chinese characteristics.

India's economic reform is proceeding in an environment of political and social instability, and every step is faced with many obstacles.

(1) **Lack of clear-cut theoretical guidance:** Only some people understand the concept of economic freedom. The left-wing parties and the conservative faction in the Congress Party are still questioning whether economic reform and opening up is "capitalist" or part of "Nehru's democratic socialism." They believe that the existing policy is "anti-people." Other opposition parties know very well that the policy of reform and opening up is the right policy but continue to take the party stand to criticize and oppose the measures.

(2) **Frequent changes of government.** Since 1980, the government has changed hands four times, three of which occurred between 1989 and 1991. No ruling party has managed to control more than half the parliament seats. The short-lived National Front and the socialist Janata Dal Party basically were in no condition to tackle economic reform. Because of the accomplishments of the economic reform in the past year, the Rao government may survive longer than people first expected, but the opposition parties have threatened a vote of no confidence in parliament because of the cuts in fertilizer subsidies, the stock market scandal, and other problems.

(3) **Conflicts among the religious organizations, races, and castes are causing incessant turmoil; terrorism is rampant.** Since the 1980's, the forces of religious factionalism have raged, exacerbating the conflicts between the Hindus and the Muslims. Recently, fanatical Hindus ignored the supreme court ruling and destroyed the 16th century Babri mosque in the northern city of Ayodhya, triggering a nationwide clash between Hindus and Muslims. They have resulted in thousands of casualties and industrial losses of 19 billion rupees a day. Once again, foreign investors are taking a wait-and-see attitude. To restore stability, the Rao government has taken steps to abolish

the five religious organizations, including Rashtriya Swyamsevak Sangh and the Vishwa Hindu Parishad, which have ties with the BJP, and subsequently it also dissolved the state governments of Uttar Pradesh, Madhya Pradesh, Rajasthan, and Himachal Pradesh. These steps may have weakened the Hindu forces, but they have also increased the element of instability. In addition, Sikh extremists in the Punjab who demand the creation of a separate Karastan State have stepped up their separatist riots. Attempts to drive out foreigners in Assam often lead to violent clashes. Prime Minister Rao has ordered the governments of various states to mobilize the army to crush the riots, and this may cause the military to lose their neutrality, making the situation even more complicated.

Faced with social strata with different interests, it is difficult to find the equilibrium point. The gap between the rich and poor is much wider in India than China. Price decontrol and subsidy reductions are necessary for the market economy, but the poor and the lower middle class people that make up 30 percent of the population cannot tolerate the price increases. It is also difficult to make the subsidies more fair. In the past, all urban residents, whether rich or poor, were entitled to parity price grain. Today, it is difficult to draw a line to separate out the lower middle class, to determine who need subsidies and who do not. When their demand for an increase in agricultural product prices after fertilizer prices were raised was rejected, rich farmers in the Punjab and Haryana regions joined the merchants to thwart the government's grain procurement efforts, and as a result, the government had to import 1 million tons of wheat each from the United States, Canada, and Australia to sustain the parity grain allocation system. Bureaucrats in the state-owned enterprises, unhappy about losing their vested interests, joined the unions in resisting the restructuring of the state-owned enterprises. Entrepreneurs go to the other extreme to pressure the government into reducing taxes and yielding more profits, and if not restrained, this can also derail the economic reform. In addition, there are other external factors: assistance from the Indian-aid financial groups and the IMF is linked to India's willingness to change policies such as signing the nuclear nonproliferation pact, reducing its defense spending, improving human rights conditions, and revising its patent law and so on. All these have made India's reform more difficult.

Thus it is clear that socio-political factors have made it difficult for India to speed up its economic reform. Recently, India's financial minister said, "economic reform can only proceed at a pace acceptable by the ruling party, the parliament, and public opinion." If the rupee is to be fully convertible, it would require better financial management and reduction of the inflation rate to single digit. Restructuring of the financial system would take four to five years. Massive layoff of workers can proceed only after the economic growth rate has reached 5 percent and when the people have found their psychological balance. India's economic growth rate was estimated to be 4 percent in 1992-1993.

Looking ahead to the year 2000, China and India share some common problems, such as population, food, energy, deficit, and environmental problems. Most of the problems are more serious in India than China. But India also has some favorable factors that can accelerate its economic development. For example, it has a better civil service system; it has the world's third largest scientific and technological contingent; it has ample management personnel; it has a cheap labor force, and its 200 million-strong middle class has ample purchasing power. Even more important is that both China's and India's economic reforms have reached the point of no return. The World Bank suggests that economic reforms in India and China, which account for 40 percent of the world population, are just as significant as the ending of the cold war. If India's economic reform continues, its economy can be one of the most vigorous economies in the world by the second half of the 1990's.

AGRICULTURE

GATT's Impact on Rural Financial Sector Previewed

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[Article by Cheng Guanghua (2052 0342 5478) and Yue Zhumin (1471 4554 3046), both of the Handan City suburban office of the Agricultural Bank: "GATT's Impact on and Method of Dealing With the Rural Financial Sector"]

[Text] After China's position as a signatory to GATT is restored, it will, with the market economy as its basis, mount the world economy's great stage and engage in free competition and fair trade. The return to GATT symbolizes trade liberalization. On the one hand it will promote a faster forward development of China's economy, and on the other hand it will give China's economy a pounding. The return to GATT will put China's economy completely on the international market, where it will take part in international market competition. Financial enterprises will be no exception, and the return to GATT will have an enormous impact on the production and development of the rural financial sector. The study as soon as possible of the relevant impact on and way of dealing with it possesses great significance.

I. Opportunities and Challenges Brought to Rural Financial Sector by Return to GATT

A. Restoration of the GATT seat will bring new opportunities to the financial sector.

1. It will provide opportunities that can be taken for the rapid development of the banking business, particularly international business and free-on-board business.
2. It will create favorable conditions for further attracting overseas capital and for promoting the overall

development of foreign exchange, negotiable securities, timed loans, and other financial markets as well as trade, communication and transportation, real estate, and tourism.

3. It will further promote financial competition, and compel the rural banking sector to raise the level of its management and the quality of its personnel.

4. It will lay the foundation for the timely introduction of new financial instruments, financial services, and scientific and technological results, and for the promotion of the internationalization and modernization of China's banks.

5. It will build closer ties between China and various countries and regions in the world, and promote the gradual establishment of an export-oriented economic system.

B. The return to GATT will pose a stern challenge to China's existing financial system.

1. It will pose a challenge to the banks' planning management, and gradually push the banks in an all-round way toward markets.

2. It will deal a blow to the banks' operating mechanisms, and give an impetus to the banks' changing from administrative management to economic regulation, gradually causing the banks to set up organizational operating mechanisms suited to domestic and international markets.

3. It will pose a thorough challenge to the banks' organizational transformation, and will push the banks into truly practicing businesslike management.

4. It will pose a challenge to the banks' traditional service mechanisms, and push the banks toward automated, computerized, and "department store company-type" development.

C. The restoration of China's seat as a GATT signatory will in the near term deal an unprecedented blow to China's rural financial sector, causing the financial sector, within a certain period of time, to bear heavy pressure from the "Import Bank."

1. New types of banks that are just getting started will be seriously challenged and their development will be threatened.

2. Banking and non-banking financial structures that are of low quality, poor service, and low returns will fall into a predicament, and their room for survival will gradually shrink.

II. Ways for China's Banks To Deal With GATT

A. Make full use of opportunities, accelerate the pace of internationalization of the financial sector, and push the entire profession toward the path of export-oriented development.

B. Perfect the management of foreign-capital banks so that the national banks operate at the optimum integration point at which they both get protection and are able to compete with the foreign-capital banks, in order to promote the development of China's financial sector.

C. As fast as possible break away from the management of banking enterprises, and gradually form financial markets that the state cultivates and also regulates and controls, and a new financial and economic system and operating mechanisms for banks to develop by competition in the markets.

D. Manage the banks' proportion of assets and liabilities, have the central banks exercise economic control over the commercial banks, and develop buyer credit.

E. Thoroughly break through the historically formed boundaries in the banks' industrial-style division of work and engage in comprehensive competition.

F. Enhance the cooperation between banks and enterprises, so that they jointly tide over crises.

Hainan Achieves Excellent Results in Agriculture

93CE0549F Beijing NONGMIN RIBAO in Chinese
19 Apr 93 p 1

[Article by NONGMIN RIBAO reporter Zhu Dewen (4555 1795 2429) and correspondent Cai Yun (5591 8502): "Firmly Maintaining Agriculture in a Fundamental Position and Relentlessly Pursuing Construction of Agriculture's Infrastructure; Five Years After Hainan Was Made a Province, Its Agriculture Has Reached a New and Higher Stage"]

[Text] At this time, when the people of Hainan are enthusiastically celebrating the fifth anniversary of becoming a province and a special economic zone, and also celebrating for the second time the happy event of the international coconut palm festival, this reporter has heard from relevant sources that in these five years since Hainan became a province and a special economic zone, its agriculture, forestry, animal husbandry, sideline production, and fishery have all had very fruitful years, and that agriculture has made rapid progress and reached a new and higher level.

Last year total grain production throughout the province reached 2,036,500 tons, a 52 percent increase over what it was in 1987 before Hainan was raised to the rank of province, or an average annual progressive increase of 8.8 percent; for the first time it actually basically achieved self-sufficiency in grain requirements. Total sugar and sugarcane production was 4.34 million tons, an increase of 66 percent compared with 1987, and an average annual progressive increase of 12 percent. The total production of aquatic products was 257,000 tons, an increase of 125 percent compared with 1987, and an annual average progressive increase of 15 percent. The total production of meat by the animal husbandry industry was 201,600 tons, an increase of 44 percent

compared with 1987, and an annual average progressive increase of 76 percent. The total value of village and township enterprises was 2.48 billion yuan, a three-fold increase compared with 1987. Production of tropical crops also steadily increased. The present acreage throughout the province planted to tropical crops is 6.7 million mu. Among the agricultural population, each person on the average holds somewhat over one mu of land planted to tropical crops, an increase of 6 percent compared with 1987. The forestry industry has afforested 2.02 million mu of land during the said five years, so that forest land covers as much as 22.46 million mu. The rate of reforestation was as high as 43 percent, having thus reached the advanced level of the entire country.

Because of the overall development of agriculture, forestry, animal husbandry, sideline production, and fishery, which did well year after year, the income of peasants has very much increased, and their livelihood has conspicuously improved. Last year the average net income of peasants throughout the province was 892 yuan, 391 yuan more than in 1987 and in excess of the income level of peasants throughout the entire country.

At the start when Hainan became a province, its population was somewhat over 6 million, of whom 80 percent were peasants. Although conditions for production were excellent, the infrastructure was poor, production proceeded at a low level, and the rural economy was backward. In view of these conditions, the party committee and the government of the province realized that to achieve an economic upswing in the large Hainan special economic zone, it is still agriculture that must be the foundation. If agriculture is not handled right, construction of the large special economic zone will be built on sand. The provincial party committee and the government have all along firmly maintained that in all large-scale reform, large-scale opening up, and large-scale construction projects agriculture is the foundation. They gave priority to agriculture and work in the rural areas, and first of all attended to the improvement of fields and to water conservancy measures. They closely linked field and water conservancy improvement work with the engineering projects for overall development of agriculture initiated by the State Council. They instituted unified planning, section by section development, and comprehensive administrative attention to mountainous areas, water, fields, and forests. They continuously improved production conditions and thus laid a firm foundation for the large-scale and rapid improvement of agriculture in the large special economic zone.

Since it became a province five years ago, almost 600 million yuan have been invested in Hainan's water conservancy engineering work and projects for the comprehensive improvement of agriculture. As a result, improvements in the conditions of agricultural production and the transformation of 1.5 million mu of medium-yield and low-yield fields have effectively promoted the development of agricultural production.

Hebei Sets Up Team To Manage Peasant Problems

93CE0549E Beijing NONGMIN RIBAO in Chinese
23 Apr 93 p 1

[Article by NONGMIN RIBAO correspondent Mu Zhaohui (4476 2600 6540): "Hebei Sets Up a Leading Team To Settle Problems in Connection With Encumbrances on Peasants—Firmly Resolved to Limit Peasant Burdens to Within Legally Prescribed Limits"]

[Text] On 14 April the leading team for the settlement of problems in connection with encumbrances on peasants proclaimed its establishment. The leading team is composed of Li Bingliang [2621 3521 5328], deputy secretary of the CPC provincial committee, as head of the team, Zhang Runshen [1728 3387 6500], provincial vice governor, as deputy head of the team, and 17 relevant leaders from the provincial party committee and agricultural and industrial departments as members. The team resolved to adopt measures to make certain that peasant encumbrances shall this year definitely be within legally prescribed limits.

Work of the leading team provides for concentrated review of matters during the first half of this year, and for the second half of the year to attend to the implementation of focal points, establishing the facts, instituting actual reductions, and resolving problems. During the first half of the year, the team will carry out a comprehensive review and readjustment of direct expenditures and burdens, of labor service encumbrances and social encumbrances since 1992. The review and readjustment will comprise, apart from reviewing documents and other items, reviewing the supernumerary personnel directly supported by the peasants, including such in the village and township stations and offices, supernumerary personnel at the village level receiving allowances, and supernumerary teachers and replacement teachers in non-government schools. The team will also review non-productive expenditures, and will abolish all special target-oriented activities organized and financed by the peasants and collective economic organizations. It will review the various contractual undertakings, and will not allow any expenditures other than agricultural taxes, general village levies, and village retentions to be included in land responsibility contracts. It will at the same time also overhaul the use and administration of fees and fines, and the administrative system concerning general village levies and village retentions.

The leading team believes that many documents required by the provincial organs are the source of burdens on the peasants. It will therefore include in its review all documents and items from all departments that have to do with encumbrances on the peasants, with special focus on the departments of education, public safety, family planning, civil administration, public health, insurance, and land administration.

Under the leading team, highly efficient executive organs have been set up, and special telephone lines for denunciation of violators have been publicized throughout the entire province.

Most Grain, Cotton Prepayments in Northeast Issued

93CE0549A Beijing JINGJI RIBAO in Chinese
25 Apr 93 p 3

[Article by JINGJI RIBAO correspondent Wang Lingling (3769 3781 3781): "Most Grain, Cotton Prepayments in the Northeast Have Been Issued"]

[Text] According to information provided by the Agricultural Bank in the three provinces of Heilongjiang, Jilin, and Liaoning, most of the advances for future supplies of grain and cotton have by now already been paid out in the northeastern region.

The Jilin Branch of the Agricultural Bank has made it a rule that the payback part of loans for the purchase of agricultural sideline products may first be used as loans to be taken as advances for future purchases. Up to 20 April, the Agricultural Bank had extended advances for grain and cotton purchases throughout the entire province amounting to over 200 million yuan, an increase of 30 percent over the advances during the corresponding period of last year. The Liaoyuan, Songyuan, and Hunjiang districts have already completed these prepayments. The municipalities of Changchun and Jilin have also already fulfilled these tasks to 90 percent. In a few days the whole amount of these prepayments will have been issued.

The Liaoning Branch of the bank has been busy raising funds so that all the 280 million yuan needed by the bank branches in the 12 prefectures and municipalities for grain and cotton advances will be available. The amount of prepayments for grain alone accounts for 61 percent of all the prepayment obligations, while advances for cotton have already been paid out to 94 percent. Tielingshi, which is the main grain producing area of the province, will require a total of 90 million yuan in prepayments, of which 88.32 million yuan have already been paid out, i.e. this task has been fulfilled to 98 percent. The Chaoyang Municipality, the main cotton producing area, requires 18.8 million yuan in interest-discounted loans, of which 18.5 million yuan have already been paid out. All prepayments for grain and cotton throughout the province will have been completed by 20 April.

In Heilongjiang, the Agricultural Bank has the funds for grain and cotton prepayments basically available, and payment of these advances is now in full swing. The task of making all prepayments will be basically completed by the end of April.

Anhui Implements New Grain Policy

93CE0549D Beijing NONGMIN RIBAO in Chinese
23 Apr 93 p 1

[Article by NONGMIN RIBAO correspondent Cheng Jiyun (4453 0370 0061): "Anhui Province Implements New Policy on Grain Production and Sales"]

[Text] Anhui Province is actively implementing the spirit of the State Council's working conference on grain and cotton and is strictly enforcing the various policies in support of and for protection of the production of grain and cotton promulgated by the State Council. A few days ago the provincial government published for the general public specific ideas on implementation of the policy. These new ideas on implementation of the policy have reformed the grain circulation system. To promote grain production, enliven circulation, and guide consumption, the provincial government has decided to decontrol from 1 April the purchase and sale of grain, as well as grain prices, for the entire province. Decontrol comprises the following:

- 1) Fixed quota procurement of grain is changed to procurement according to guidance-style planning; for quantities for which fixed quota procurement is still retained, procurement prices are decontrolled.
- 2) Supply of grain for the urban or rural population at parity prices is abolished. With the exception of military requirements for grain and edible oil (including requirements of the military police, thus also in the following), all grain and all kinds of subsidy grain for the urban and rural population are to be supplied at market prices.
- 3) Procurement and marketing plans and prices for grain and edible oil are completely decontrolled.
- 4) Plan allocations at the provincial level and between prefectures are abolished; producers and consumers are to contact each other directly and to sign supply and sales contracts.
- 5) After decontrol of grain and edible oil prices, purchase and sales prices for grain and edible oil, and for products of such non-staple foodstuffs as grain and edible oil, animal feed, etc. shall be determined by the grain enterprises themselves according to the market.

NORTHWEST REGION

Work Report of Ningxia People's Higher Court

93CM0370A Yinchuan NINGXIA RIBAO in Chinese
5 Jun 93 p 3

[Speech by Zou Xianchao, president of the Higher People's Court of the Autonomous Region: "The Report on the Work of the Higher Court of the Autonomous Region (Excerpt)—Delivered at the First Session of the Seventh People's Congress of the Autonomous Region on 18 May 1993"]

[Text] Deputies:

Since the first session of the Sixth People's Congress of the Autonomous Region, the People's Courts of various levels in our region have comprehensively enhanced the work on handling criminal, civil, economic, and administrative cases. In the five years, the courts across the region have handled 78,772 first-instance, second-instance, and adjudication supervision cases. The average annual rate of increase is 6 percent. In this respect, 1992 saw an increase of 21.53 percent. The number of cases settled was 77,926. Thus, the courts have played an active role in protecting the people, punishing criminals, promoting reform, and serving the four-modernization effort. The following is a report on the general situation regarding the work of all the courts in the region and the views on future work of the courts; please consider on the report.

1. On the work of handling criminal cases

In the five years, the People's Courts of various levels across the region have performed their duties as organs of the people's democratic dictatorship, and cracked down on criminal activities of various types which have had serious detrimental effects on public security and economic order. The courts have handled 12,745 first-instance criminal cases. The average annual rate of increase is 11.06 percent. In the five years, the courts have adjudicated in 12,486 cases, and the sentences imposed on 13,084 offenders have become legally effective. Those who have been sentenced to over five years in prison, to life in prison, or to death (including the cases of suspended execution) account for 27.91 percent of the total number of those on whom sentences have been imposed. 30.38 percent of those sentences were imposed in 1992. Those who have been sentenced to less than five years in prison, to detention, or to control account for 68.57 percent of the sentences; those who have not been given criminal punishments account for 2.85 percent; and those who have been found innocent account for 0.65 percent.

(1) Cracking down on criminal activities which have had serious detrimental effects on public security, so as to create a stable social environment for the reform and opening to the outside world and for economic construction.

In the five years, the People's Courts of various levels across the region have conscientiously followed Comrade Xiaoping's instruction of "focusing on the two things and being tough on both fronts"; made efforts to eliminate and overcome the tendency to slacken their vigilance; and maintained a clear understanding of the crackdown policy. In view of the actual situation regarding public security in our region, the courts have, together with the public security and procuratorial agencies, conducted concentrated regional "crackdown" operations and various special operations, followed the policy of "meting out severe punishments in a quick manner," in accordance with the law, in punishing murderers, robbers, bombers, rapists, hooligans, those who have committed serious thefts, "train bandits and highway lords," and the criminals who have damaged transport, communications, and electric power facilities; and cracked down on the "six evils" criminal activities—those involving drugs, those involving pornography, the abduction and sale of women and children, prostitution, and visiting prostitutes.

Larceny has always accounted for the largest number of criminal cases among all types of crimes. In order to protect the personal interests of the people and to ensure the security of private properties and the smooth development of economic construction, the People's Courts of various levels across the region have actively participated in the nationwide three-year anti-larceny campaign, and—in accordance with the law—imposed severe punishments in a quick manner on the criminals who stole or damaged transport, communications, and electrical power equipments and who stole important production materials and products of enterprises. The courts cracked down on the leading members of stealing gangs, major thieves, habitual criminals, roving criminals, instigators of crimes, and the primary culprits in larceny cases involving several offenders. In five years, the courts across the region have adjudicated in 4,652 larceny cases, and imposed sentences on 6,321 larceny offenders, with the sentences on 1,193 of those offenders being imposed in 1992.

For some time, the "six evils" criminal activities have been rampant. In accordance with the main ideas of the relevant circular issued by the Supreme People's Court, the People's Courts of various levels across our region determined that an important aspect of the criminal adjudication work was to combat the "six evils" criminal activities—the abduction and sale of women and children, drug trafficking, prostitution, visiting prostitutes, manufacturing and peddling pornography, and gambling. The courts have conscientiously implemented the relevant decisions of the Standing Committee of the National People's Congress, and cracked down on the criminals who have committed offenses in those categories.

While adhering to the "crackdown" policy and maintaining the "crackdown" momentum, the People's Courts of various levels have conscientiously followed the criminal justice policy of "combining punishment

with leniency," and given lenient treatment to those who have turned themselves in, those who have done good deeds by reporting on others, those who have confessed, people who should be given lenient treatment or have their offenses considered less serious under the law, in accordance with the law, thereby giving real effect to that policy and creating divisions among criminals. The courts have actively joined the effort to comprehensively improve the public security situation in many ways.

(2) Deepening the fight against serious economic crimes, so as to promote clean government and to maintain the socialist economic order.

In the five years, the People's Courts of various levels across the region have adhered to the policy of economic crimes, and imposed punishments on a number of economic criminals in accordance with the law. The courts have adjudicated in 1,773 first-instance economic crime cases, and the sentences imposed on 2,448 offenders have become legally effective.

In order to punish those involved in corruption and promote the development of clean government, in the fight against economic crimes, the People's Courts of various levels in our region have adhered to the policy of focusing the crime-fighting effort on punishing government functionaries who have committed such crimes as embezzlement and accepting bribes. In the five years, the courts have adjudicated in 266 embezzlement and bribe-accepting cases, and the sentences imposed on 366 offenders have become legally effective. The courts have imposed sentences on 83 offenders who each committed embezzlements or accepted bribes totalling over 10,000 yuan. Seven of those offenders each committed embezzlements or accepted bribes totalling over 100,000 yuan. Nine of those who have received sentences for embezzlement or accepting bribes were cadres of the county (department) level or higher.

Under the new situation of accelerated development of reform and opening to the outside world and of economic construction, the situation regarding economic crimes is rather complicated. In view of this, in adjudicating economic crime cases, the People's Courts of various levels in our region have consistently adhered to the principle of "firstly, being resolute, and, secondly, being cautious, so as to make sure that things are being done correctly"; strictly differentiated between crime and noncrime; adhered to the practice of applying the standard of "being conducive to three things" as proposed by Comrade Xiaoping; and prudently and appropriately handled the new types of cases that have emerged in the process of reform and opening to the outside world. The courts did not taken actions on those who, with a daring spirit, had dared to experiment and who had committed mistakes on the basis of considering them to have committed crimes; have given lenient treatment to those enterprise managers and scientific and technological workers who have made prominent contributions, who had committed light crimes, and who

have done a good job of confessing; and have, in accordance with the law, imposed suspended sentences on those on whom sentences should have been imposed, but who are needed in a special way: in production, business operations, and scientific research work. At the same time, the courts have paid attention to giving play to the role of various types of punishments, and to making full use of such punishments as confiscating properties and imposing fines, so as to prevent criminals from getting economic gains.

2. On the work of handling economic cases

Closely focusing on economic construction, the People's Courts of various levels in our region have greatly enhanced the work of handling economic cases, made efforts to adjust economic relations through conducting adjudicating activities, and actively participated in the improvement and rectification work, in an effort to contribute to the improvement of large- and medium-sized state-owned enterprises and to provide services for the development of the rural economy, for the acceleration of the reform and opening to the outside world, and for economic construction. In the five years, the courts have heard 9,951 cases of economic disputes, of which 2,889 cases were heard in 1992. The average annual rate of increase is 13 percent. The year 1992 saw an increase of 78.22 percent over the previous year. 8,936 cases were settled; 2,694 of those cases were settled in 1992, representing an increase of 86.30 percent over the previous year. The suits that have been settled during the five years have involved a total of 452.4646 million yuan.

(1) Actively broadening the scope of the work of serving, and the channels through which services are provided for, economic construction. In the five years, especially since Comrade Xiaoping made his remarks during his southern inspections, the People's Courts of various levels have further emancipated their mind, renewed their views, enhanced their willingness to serve the reform and opening to the outside world as well as economic construction, and taken the initiative in providing legal services for economic development. The courts started from conducting investigation and analysis, and went to the enterprises and rural areas to conduct investigation and analysis. The courts have provided pertinent legal services for enterprises and for those engaged in developing the rural economy. On that basis, the People's Courts of various levels have, in general, set up steering groups on judicial service, thus enhancing the organizational leadership over service work. The courts have hired a number of judicial service liaison officers from among those working in the enterprises and rural economic organizations, and established systems of contacts with, and service for, enterprises and rural economic organizations. In the course of the adjudication work, with regard to the cases having great impact on enterprises and the development of the rural economy, the courts in various localities have formulated and adhered to the service practice of "giving priority status in three aspects," priority status in terms of when cases are filed, priority status in terms of when

the cases are tried, and priority status in terms of when the adjudications are enforced, and used such methods as those of trying cases in circuit courts and of conducting on-site trials, thereby settling a large number of cases of economic disputes and producing good social effects. At the same time, the courts have actively provided extended pre-lawsuit and post-lawsuit services. First, they have established economic-dispute mediation centers, providing timely and effective legal services for enterprises and rural economic organizations; second, they trained legal personnel for enterprises and rural economic organizations, and provided assistance in revising and improving signed economic contracts as well as in establishing and perfecting operational and management systems; third, they timely suggested ideas on making improvements in view of the law-related problems in enterprises and rural economic organizations that they have discovered in the process of handling cases; fourth, they have sponsored training courses for directors and managers of enterprises, so as to increase their ability to conduct business operations and management in accordance with the law; fifth, after lawsuits, they have provided assistance to those enterprises which have lost in finding business connections and marketing products, so as to reduce the losses of enterprises as much as possible.

(2) Enhancing the work of hearing and settling cases of rural economic disputes, so as to provide protection for the development of the rural economy. In the five years, the courts have heard and settled 149 cases including cases of contracts involved in rural contracting activities. The courts have contributed to the stabilizing of the responsibility system mainly based on output-linked household contracting by hearing and settling such cases, thereby promoting the continuous perfecting of the two-tier management system with both unifying and separation characteristics. The People's Courts and People's Tribunals at the grassroots have also, in cooperation with rural financial institutions, carried out the work of handling loan-related cases in accordance with the law, thereby ensuring the circulation of, returns on, and security of, rural credit funds and giving full play to the role of rural credit funds in promoting the development of the rural economy.

(3) Effectively enhancing the enforcement work. In the five years, relying on the party committee's leadership, on the People's Congress' supervision, and on vigorous support from the government and all sectors of society, the courts in our region have enhanced the enforcement work. In 1992, the People's Courts of various levels of our region concentrated human and material resources on conducting two rounds of concentrated enforcement efforts, clearing a number of cases on which the adjudications had not been enforced, and producing prominent results and good social effects. In the five years, the courts across the region have enforced judgments on 26,782 cases, the judgments on 7,796 of those cases were enforced in 1992. As a result, most judgments have been enforced, thereby contributing to the maintenance of the dignity of the law.

3. The work of adjudicating civil and administrative cases and the work of handling civil and administrative lawsuits and petitions

With the development of the economy and the gradual perfecting of the socialist legal system, citizens' law consciousness is getting ever stronger. In recent years, the number of civil cases have been rising. In five years, the courts across the region have heard a total of 45,866 civil cases, accounting for 68.76 percent of all the first-instance cases heard by the courts. The courts heard 11,125 of those cases in 1992. The average annual rate of increase has been 10.8 percent. In the same five years, the People's Courts of various levels of our region have conscientiously followed the civil code and the Civil Procedure Law, and vigorously enhanced the work of adjudicating civil cases; the courts have settled 43,713 first-instance civil cases, settling 10,689 of those cases in 1992, thereby timely resolving conflicts, eliminating difficulties and worries for the people, protecting the civil interests of the citizens and legal persons, contributing to the maintenance of social stability and unity, and promoting the construction of socialist spiritual civilization.

The promulgation of China's Administrative Procedures Law in 1989 showed that China's litigation system was being gradually perfected. Thus, the work of adjudicating administrative cases entered a new stage where things could be done in accordance with laws. With the increase in the number of laws and regulations across the years, the scope of administrative litigation has also been gradually expanding. The number of administrative litigation cases is increasing yearly. In the five years, the courts across the region have heard 357 first-instance administrative cases; on average the number of cases increases by 27.8 percent each year. The People's Courts of our region have carefully followed the Administrative Procedures Law, and carried out the work of adjudicating administrative cases in a comprehensive way. The courts have settled 339 administrative cases. The courts upheld the rulings of administrative agencies in 39.82 percent of those cases, overturned the rulings of administrative agencies in 22.64 percent of those cases, and altered the rulings of administrative agencies in 2.65 percent of the cases; the litigating parties dropped the lawsuits in 29.2 percent of the cases, while 7.73 percent of those cases had other outcomes. Through adjudicating those administrative cases, the People's Courts have protected the legitimate rights and interests of citizens, legal persons, and other organizations in accordance with the law, and supported, and exercised supervision over, administrative agencies in their activities of exercising power, thereby promoting the development and perfecting of socialist democratic politics.

In order to change the situation of "having difficulty filing lawsuits," the People's Courts of various levels of our region have established offices to handle the filing of lawsuits and petitions, and enhanced the work on handling lawsuits and petitions. In the five years, the courts across the region have received 93,961 visitors, and

taken appropriate actions on 44,910 letters from ordinary people. 98,506 of those visitors and letters discussed actual cases. With regard to the lawsuits filed by ordinary people, the People's Courts of various levels have adhered to the principle of "being close to the relevant localities, making things convenient, and being timely" in filing cases. With regard to the petitions from the people, the courts have adhered to the principle of "seeking truth from facts and correcting all the mistakes," and made conscientious efforts to conduct investigation and take appropriate actions. If the courts find the original judgments to be erroneous, they would redress the judgments in accordance with the law. In the five years, the People's Courts have earnestly accepted the supervision of the procuratorial agencies, and heard the various judgment-protesting cases filed by the procuratorial agencies. The higher and intermediate courts have also further enhanced their supervision over and guidance for the lower People's Courts in relation to their adjudicating work, thereby promoting the improvement of the standards of law enforcement.

4. On the reform and development of courts themselves

In the five years, the People's Courts of our region have adhered to the practice of handling cases and proceeding with the development of courts at the same time. While doing a good job of handling cases, the courts have enhanced the work relating to various aspects of the development and management of the courts, and carried out relevant reforms, leading to continual improvement in the political and professional qualities of the personnel of the courts, and resulting in some achievements in the development of the "two tribunals" and other physical development.

In five years, 36 advanced groups and 347 advanced individuals in the region-wide court system have been commended by agencies at the prefecture level or above. Of those commended, one group won a second-class merit citation; three groups each won a third-class merit citation; four individuals each won a first-class merit citation; 11 individuals each won a second-class merit citation; 70 individuals each won a third-class merit citation; and, one tribunal was declared a good-in-five-aspects tribunal, and 98 judges were declared outstanding judges. In the total number of the cadres and police officers in the region-wide court system, the share of those with college-level education or more has increased to 48.9 percent from 12.27 percent in 1987. The court system has increased its personnel—having 1,253 personnel in 1987, and having 1,705 personnel at present. By the end of 1992, the entire region had 68 People's Tribunals, representing an increase of 15; and the number of cadres working at the tribunals increased to 273 from 165 previously. Offices for 28 People's Tribunals have now been built; in the courts of three levels across the region, 96.2 percent of the courtrooms have been built or are being built; and the physical surroundings and enforcement conditions for the People's Courts of various levels have been improved to

some extent. Some courts have seen significant improvements. Nevertheless, the facilities and equipment of the People's Courts remain rather backward, and some People's Tribunals are still using rented private housing space for carrying out office work, and lack the necessary conditions for conducting office work. Some of the completed courtrooms do not have the necessary supporting facilities because of funding difficulties; as a result there have been difficulties in using courtrooms in a normal manner. We hope that in the future all the construction relating to the office space that the People's Tribunals need can be completed, and that the issue of backward equipment can be resolved in an appropriate manner.

Deputies: During the term of the Sixth People's Congress of the Autonomous Region, the People's Courts of various levels of our region have enhanced adjudication work overall, thereby playing an active role and making some achievements in maintaining social stability, in protecting the legitimate rights and interests of citizens and legal persons, and in promoting reform and opening to the outside world, as well as economic construction. At the same time, there also exists some problems which call for efforts at generating improvements and which need to be resolved. First, our views and professional competence are still not up to the requirements of reform and opening to the outside world and the system of socialist market economy. We have to further enhance our study efforts, emancipate our mind, change our views, foster the idea of serving reform and opening to the outside world, as well as socialist market economy, and improve our policy and legal competencies. Second, the negative effects produced by tendencies toward inappropriate conduct and by commodity economy are seriously corrupting the adjudication personnel. A small number of cadres and police officers are not able to stand the test in terms of resisting those corrupting influences. They go to dinners when invited, accept gifts and bribes, handle "cases on the basis of considerations of the need to maintain connections," and handle "cases on the basis of considerations of personal relationships," resulting in some cases being settled unfairly. Third, some cadres and police officers tend, in a significant way, to consider themselves people with privileges, lack the willingness to serve the people, have a crude and rude way of working, procrastinate in handling cases, fail to conduct work in a timely manner, and refuse correct mistakes when pointed out; and the problem of "having difficulty filing lawsuits," about which the people have complained, still exist to varying degrees. Fourth, there is a lack of firm understanding of the long-term, difficult, and complicated natures of the fight against various crimes. The "crackdown" policy has not been followed resolutely; as a result, the sentences imposed on a few who have committed serious crimes have, to varying degrees, failed to embody the "severe punishment" policy, and represented punishments which have not been severe enough. Fifth, under the new situation, some adjudication personnel have not made conscientious efforts to study and analyze issues relating to some new types of

cases, and are thus rather casual in determining the nature of the cases and taking actions on the cases. Sixth, the higher court has not been very effective in studying new situations and new issues, in providing professional guidance, and in supervising trials. In our future work, we will adopt practical and effective measures in a serious effort to eliminate and resolve those deficiencies and issues.

5. On the tasks of the People's Courts in the future

As the 14th CPC Congress suggested, the central task for the 1990's is to accelerate the reform and opening to the outside world and the modernization construction, and the effective way to accomplish this central task is to establish the system of socialist market economy. The establishment and development of a socialist market economy will make society and economy more based on the market and on laws, and thus it will be increasingly necessary for the People's Courts to regulate various social relations through legal means. The position and role of the People's Courts in the political, economic, and social life of the country will become even more important, and the adjudication tasks will be heavier and more difficult. For some time to come, the main task of the People's Courts is: under the guidance of the main ideas enunciated at the 14th CPC Congress and Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics, to conscientiously implement and follow the party's basic policy line of "one focus, two basic points"; to further emancipate the mind; to seek truth from facts; to enhance the adjudication work in a comprehensive way; and to adhere to the policy of combining crime fighting with adjusting work, so as to provide, in a better way legal protection and legal services for building the system of socialist market economy and for the acceleration of the reform and opening to the outside world and of the modernization construction. First, continue to adhere to the policy of "focusing on the two things and being tough on both fronts"; impose severe punishments on the counter-revolutionaries who want to overthrow the regime of people's democracy and to sabotage socialist economic construction and others who have committed serious crimes; wipe out social evils; impose punishments on corrupted elements; and safeguard the stability in the nation and in society, so as to create a good social environment for the reform and opening to the outside world and for the modernization construction. Second, vigorously enhance the work of handling economic cases; fully utilize legal means for regulating economic relationships; provide equal protection for the legitimate rights and interests of all economic actors engaged in market competition; promote the transformation of the state-owned enterprises' operating mechanisms and the continual perfecting of the two-tier rural management system with both unifying and separation characteristics; promote the commercialization of results of scientific and technological research and the transformation of those results into actual productive force; provide guidance and impose norms in relation to conducts on the market; and provide

protection for the establishment and perfecting of the system of socialist market economy. Third, settle civil cases correctly and timely in an appropriate manner and in accordance with the law; provide effective protection for the citizens' and legal persons' rights relating to civil cases; impose sanctions on those who have violated civil laws; eliminate destabilizing factors in society; and promote the construction of socialist spiritual civilization and socialist material civilization. Fourth, conduct the work of handling administrative cases in an active and prudent manner; protect the legitimate rights and interests of citizens, legal persons, and other organizations; support, supervise, and protect administrative agencies in their activities of exercising power; promote the transformation of the function of government; ensure that enterprises have real management autonomy; and ensure the smooth progress in the state's effort to reduce the peasants' burden. Fifth, continue to do a good job of carrying out enforcement; make serious efforts to resolve the problem of "having difficulty enforcing adjudications"; and ensure that valid sentences and judgments of the People's Courts and the valid rulings of administrative agencies are enforced, so as to maintain the dignity of the socialist legal system. Sixth, further enhance the effort to conduct investigations and analyze issues; analyze the new situations and new issues confronting the adjudication work; situations and issues that have emerged amid new developments in the course of reform and opening to the outside world under the new situation of accelerated effort to establish the system of socialist market economy; and search for the appropriate measures to be taken, so as to make our work based more on the tendency to take initiative and on understanding probable future developments, and to do a better job of supervising trials and providing professional guidance. Seventh, adhere to the practice of arming all the cadres and police with the theoretical weapon of Comrade Xiaoping's theory of building socialism with Chinese characteristics; enhance the development of the leadership teams at various levels; do a good job of implementing the Rules on Redress of Wrong Cases (for Trial Implementation) in relation to cases handled by the courts across the region; enhance measures to promote clean government; do a good job of promoting clean government; and adhere to the practice of being strict in terms of the demanded level of performance, of exercising management in a strict way, and of enforcing the disciplines in a strict way. Foster the tendency to conduct trials on the basis of being honest in performing official duties and serving the people diligently, so as to ensure the accomplishment of various adjudication tasks.

Deputies: Under the leadership and supervision of the CPC Autonomous Region Committee and the Standing Committee of the People's Congress, and guided by the main ideas enunciated at the 14th CPC Congress and Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics, the People's Courts of various levels of our region will close ranks behind the party center with Comrade Jiang Zemin as the core, further emancipate the mind, explore and advance, continuously improve the qualities of law enforcement

work, and strive to make our region climb another step in adjudication work and the quality of work of handling cases; climb another step with regard to the efficiency in handling cases; and climb another step in relation to the political, economic, and social effects of the work of

handling cases, so as climb another step in relation to the quality of service provided by the entire court system for the party's basic line, thereby making new contributions to the acceleration of reform and opening to the outside world and the modernization construction of our region.

Businessmen Profit in False Joint Ventures

93CE0538A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 5, May 93 pp 42,43

[Article by Mao Sen (5399 2773): "Many Tricks Are Used To Make Money in the Great Wave of Joint Ventures"; All areas in Mainland China are vying to win foreign investment by offering preferential treatment, enabling foreign businessmen to make sizable unfair profits operating joint-venture enterprises. While mainland officials have begun to investigate this, with illegal means used by foreign businessmen continuing to be exposed, a stream of grass-roots cadres is interceding against the rectification, investigation, and punishment of these illegal means.]

[Text] Taiwanese Businessmen Are So Sought After That It Has Turned Their Heads

Mr. Chang is a businessman from Tainan, Taiwan whose Mainland Chinese friends and relatives began in 1991 to try to persuade him to invest on the mainland. So he returned to his ancestral homeland in Anhui Province and began investigating establishment of a cardboard box factory, where the county elders treated him like the God of Wealth, specially accompanying him, treating him to daily banquets, and particularly pleasing Mr. Chang with promises of preferential terms. He later ran into a provincial foreign trade official on a train, who urged him to conduct some business in the provincial capital (Hefei) to expand his influence, whereupon he was entertained by a round of provincial units, taken to see a development zone, and told that if he was willing to invest there, his tax reductions and exemptions would be even more attractive.

Mr. Chang was well persuaded. With capital on hand, who would not want to make money faster! So Mr. Chang returned to Taiwan with a thick stack of investment guides.

But after two years, Mr. Chang's investment plans have still not been implemented because a stream of his friends and relatives from all over have been soliciting his business with ever-increasing and ever-better promises of preferential treatment. He has received invitations from everywhere so that, without actually doing any business, he has become so popular it has turned his head.

Mr. Chang's case is certainly not an isolated phenomenon. Since the last half of 1992, large numbers of foreign, Hong Kong, and Taiwanese businessmen have been pouring into the mainland, with local policies being drawn up everywhere to win over their investments, leaving Mr. Chang and his ilk overwhelmed with joy.

Those Who Get the Foreign Businessmen Are the Ones Who Profit

In order to profit from this situation by winning over foreign businessmen, many localities are disregarding all, and even not hesitating to sacrifice national interests

for the private interests of their own units and enterprises. Some factories are announcing at mass rallies that any who can win over foreign investors will be raised several grades in pay, not to mention receiving other bonuses. One unit in Pudong, Shanghai promised that whoever could attract investment would be given two Shanghai residence-registration quotas. An enterprise with longstanding losses in Jiading City promised providers of foreign investment contacts that it would reserve the enterprise's large rent-free residences for them.

Mainland China's original preferences for Hong Kong, Taiwanese, and foreign businessmen, which were usually "two exemptions and two reductions" (two years of tax exemption and two years of tax reduction), later developed to "two exemptions and five reductions." And even these preferences have recently been topped by the Beijing "Badaling EDZ," which is actually offering foreign businessmen the exceptional preference form of "six exemptions and six reductions." Some Beijing people are lashing out at this loudly, saying that "you might as well contract all of Beijing out to foreigners tax free!"

Once the wave of roping in foreign investment had slightly subsided, the relevant State Council organs began to pay attention to the matter. Someone pointed out in a report that "such stooping to compromise enables many foreign businessmen to take advantage of our cheap labor to get rich, ultimately leaving us with only the short end of the stick...."

False "Joint-Venture Agreements" Are Perpetuating a Fraud

The increasing numbers of foreign businessmen who are entering Mainland China through "false-joint-venture" agreements have aroused PRC concern. The State Council issued a document in March 1993, ordering the national tax and management sectors to pay attention to investigating and dealing with this situation in order to reduce national losses.

Some false joint venture agreements have already been exposed. Many Hong Kong or Taiwanese businessmen do not actually put up any genuine capital, but rather simply hang out a "Hong Kong firm" or "Taiwanese firm" sign, acting in collusion with mainland companies to sign false "joint-venture agreements" as screens. This gives not only the Taiwanese and Hong Kong businessmen many advantages, but also the Mainland Chinese enterprises a host of preferences, enabling them to take advantage of the foreign name to make money. This phenomenon is quite severe in both coastal cities and counties and inland provinces. Surveys show that over 70 percent of enterprise registrations in some places are joint ventures. It is understood that the concerned departments are drawing up policies to deal with enterprises that act in collusion with foreign businessmen.

In fact, local governments ought to be charged with the major responsibility for creating this situation. Some

localities regard winning foreign investment and setting up joint ventures as mandatory duties and targets for subordinates, with nonfulfillment bringing criticism. Thus, overseas trafficking is everywhere, with many being in it just to make up the numbers. A certain district in Henan Province assigned its subordinates the target of setting up 10 joint-venture enterprises a year, with dismissal for nonfulfillment. Some have called this "forcing the virtuous to prostitute themselves."

As Tax Loopholes Widen, Foreign Businessmen Acquire More Ways To Evade Taxes

The phenomenon of tax evasion by foreign-invested or joint-venture enterprises in Mainland China has reached an alarming state. Jin Xin, the director of the PRC State Administration of Taxation, revealed recently that "in Shenzhen alone, tax evasion by the three kinds of foreign trade enterprises' alone has reached 60 percent."

Data has been uncovered to show that a strange phenomenon has surfaced in Wuhan, in which Taiwanese-invested enterprises expand despite book losses year after year. One Taiwanese-operated cooking utensil plant in Wuhan sustained losses in 1990 and 1991 of 900,000 yuan and 1.1 million yuan, respectively, while its Taiwanese proprietor continued to beam with satisfaction. The Municipal Foreign Business Office later discovered that this enterprise had spent an additional million yuan to set up another joint-venture enterprise, while continuing to "run at a loss."

In 1988 this phenomenon of steady enterprise expansion despite book losses accounted for 42 percent of foreign-invested enterprises (FIE's) in Fujian Province, 35 percent in Guangdong, and an average of over 30 percent nationally.

Just take a look at the inner trappings of these losing enterprises. The owner of the abovementioned cooking utensil plant in Wuhan, Hubei made his profits primarily through acting as an equipment-purchasing agent. As the Chinese partner's enterprise-export capability was deficient, the Taiwanese businessman used his own export channels (his original Southeast Asian markets) to force product list prices below production costs, which enabled him to make a lot of money off of retail prices in foreign markets. This creates a situation where joint-venture enterprises sustain book deficits, while profits actually flow into the pockets of their bosses. This is because when attracting foreign investment, the Chinese

partner has approved "the foreign partner turning enterprise industrial profits into commercial profits, to profit from acting as purchasing and marketing agents." Such joint-venture or wholly foreign-owned enterprises naturally are impressive in not having to pay taxes.

Other foreign businessmen turn their shops into "independent" companies before their tax-exemptions expire, thus acquiring further tax reductions and exemptions.

In light of this, the "PRC Tax Collection Management Law" that took effect on 1 January 1993 closed up these loopholes to a considerable extent.

Grass-Roots Cadres Intercede

All PRC foreign trade, commerce, and tax departments recently received instructions, demanding that all areas "further free up their thinking to create a good investment climate for attracting more foreign investment to speed up the pace of reform and opening," while "rectifying the three kinds of foreign trade enterprises by cracking down on their many illegal means that are detrimental to reform and opening, and enhancing economic legislation."

Some grass-roots leaders certainly do not approve of their superiors' means of rectifying, investigating, and dealing with foreign businessmen. KAIFANGU BAODAO [DEVELOPMENT ZONE REPORT] reported that one mayor interceded on the behalf of an illegal Taiwanese firm, pleading with the higher-level tax department personnel not to fine the firm so heavily that it would not dare to invest further. "We must not chase these people away. They have developed our resources, employed up to 1,000 people, occupied our hotels, built several flourishing markets, and helped us by raising our management level...." Tax staffers note that the lack of support by local leaders for investigation and punishment is their biggest headache.

County and municipal Taiwan offices and united front sector personnel also make a great deal of veiled criticism about certain severe restrictions on foreign firms. Some say: "It was hard enough to get them to come in the first place, and the preferences are not ours alone. The more joint-venture enterprises there are, the easier our work will be. Have our Taiwanese compatriots not come here just to make a little money? If they are overcontrolled, who will want to come?" Taiwan office personnel also feel local Taiwanese influence, with even more cadres having long profited from pulling strings and interceding, feeling that they would lose face if they did not put in a good word for Taiwanese businessmen.

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